

**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS***

---

***KARLEEN CARLSON STRAYER***  
***October 8, 2003***

---

***LEGALINK MANHATTAN***  
***420 Lexington Avenue - Suite 2108***  
***New York, NY 10170***  
***PH: 212-557-7400 / FAX: 212-692-9171***

**CARLSON STRAYER, KARLEEN**



**LEGALINK**

**A WORDWARE COMPANY**

Page 22

1 KARLEEN CARLSON STRAYER 10:31:03  
2 A. Two, two primary ways: One is by 10:31:10  
3 very diligent monitoring of the credit's 10:31:13  
4 performance over time; and the second is that 10:31:15  
5 when the transactions are underwritten, there 10:31:18  
6 are various covenants put in place that allow 10:31:20  
7 us certain rights and remedies in the event 10:31:25  
8 there is a problem. 10:31:27  
9 Q. What was your position when you 10:31:37  
10 joined the Surveillance Department in December 10:31:38  
11 of 1992? 10:31:40  
12 A. I was the vice-president in the 10:31:42  
13 Healthcare Group. 10:31:43  
14 Q. Do you recall how many groups 10:31:46  
15 there were in the Surveillance Department 10:31:47  
16 department at this point in time? 10:31:53  
17 A. Not exactly; maybe six, something 10:31:55  
18 like that; at least, we have a public finance 10:31:57  
19 side and a structured finance side and the 10:32:02  
20 public finance side, which is where I was, 10:32:05  
21 probably had about six. 10:32:07  
22 Q. You mentioned that you were, you 10:32:09  
23 joined MBIA as a vice-president: What were 10:32:11  
24 the other positions within the Healthcare 10:32:14  
25 Group at that point in time? 10:32:15

Page 23

1 KARLEEN CARLSON STRAYER 10:32:15  
2 A. In terms of the other individuals 10:32:18  
3 in the group? 10:32:20  
4 Q. Not specifically individuals' 10:32:21  
5 names, I'm just trying to gain a sense in 10:32:24  
6 terms of the titles of people who worked in 10:32:26  
7 the group at that point in time; in other 10:32:29  
8 words, you were a vice-president. I take it 10:32:31  
9 there was a director? 10:32:33  
10 A. We didn't have that title in 1992. 10:32:34  
11 Q. Okay. 10:32:36  
12 A. I can't recall the exact title 10:32:38  
13 structure but I believe in the Healthcare 10:32:40  
14 Group there was one other vice-president, and 10:32:43  
15 I reported to a vice-president who was 10:32:46  
16 actually part-time in the Utility Group, 10:32:50  
17 part-time in the Healthcare Group, and then 10:32:55  
18 there were two other more junior analysts and 10:32:57  
19 I don't recall their titles. 10:33:02  
20 Q. Who were the two other junior 10:33:14  
21 analysts, that you recollect? 10:33:15  
22 A. Their names? 10:33:17  
23 Q. Yes. 10:33:18  
24 A. Leo Roland and Susan Epstein. 10:33:18  
25 Q. And who is the other 10:33:23

Page 24

1 KARLEEN CARLSON STRAYER 10:33:23  
2 vice-president that you're recollecting? 10:33:25  
3 A. Rich Quimby. 10:33:28  
4 Q. Who was the vice-president to whom 10:33:29  
5 you reported? 10:33:31  
6 A. Tim McKeon. 10:33:34  
7 Q. What were your responsibilities in 10:33:37  
8 this position as vice-president? 10:33:40  
9 A. To monitor the healthcare 10:33:42  
10 portfolio and certain credits within the 10:33:45  
11 healthcare portfolio and, over time, to 10:33:48  
12 remediate various credits. 10:33:53  
13 Q. How were you given assignments? 10:34:00  
14 A. My manager would assign various 10:34:05  
15 credits to me. 10:34:07  
16 Q. When you say "manager," did you 10:34:14  
17 mean the vice president to whom you reported, 10:34:14  
18 Mr. McKeon? 10:34:16  
19 A. Mr. McKeon and Mr. Quimby. 10:34:16  
20 Q. During your, let's say, first two 10:34:27  
21 years as a vice-president in the Surveillance 10:34:29  
22 Department, do you recall working on any 10:34:32  
23 Pennsylvania- or New Jersey-based healthcare 10:34:35  
24 credits? 10:34:40  
25 A. In the first two years, '90 -- 10:34:41

Page 25

1 KARLEEN CARLSON STRAYER 10:34:41  
2 Q. '93 to '94, yes. 10:34:45  
3 A. '93 to '94... Yes. 10:34:48  
4 Q. Which credits do you recall 10:34:55  
5 working on in this time frame? 10:34:56  
6 A. The primary credit that became my 10:34:59  
7 responsibility during that time that was in 10:35:01  
8 that area was Sacred Heart Hospital, but there 10:35:03  
9 -- actually, I should point out during that 10:35:09  
10 time I became manager of the group and then 10:35:11  
11 the group's staffing changed significantly; so 10:35:13  
12 I was basically responsible for the entire 10:35:17  
13 healthcare portfolio during that time. 10:35:20  
14 Q. You mentioned "Sacred Heart"; 10:35:24  
15 that's in Norristown, Pennsylvania? 10:35:27  
16 A. Yes. 10:35:29  
17 Q. Do you recall any other 10:35:30  
18 Pennsylvania- or New Jersey-based healthcare 10:35:30  
19 credits that you worked on in this time frame, 10:35:34  
20 '93, '94? 10:35:35  
21 A. In terms of -- well, I was 10:35:38  
22 responsible for the entire portfolio, so 10:35:40  
23 anything that was in our portfolio at the time 10:35:43  
24 was my responsibility to ensure that it was 10:35:45  
25 monitored; in terms of remedial work, I don't 10:35:48

Page 26

1 KARLEEN CARLSON STRAYER 10:35:48  
2 recall that time period. We did spend a lot 10:35:53  
3 of time on Sacred Heart Hospital. 10:35:56  
4 Q. Were these functions split at this 10:36:00  
5 point in time; by "functions," I mean 10:36:06  
6 monitoring credits and remediation? 10:36:08  
7 A. I don't think I understand the 10:36:14  
8 question. 10:36:14  
9 Q. If I understood you correctly, I 10:36:14  
10 believe you testified that when you joined in 10:36:16  
11 '92, you had general responsibility to monitor 10:36:18  
12 all the existing healthcare credits of MBIA? 10:36:25  
13 A. Well, it wasn't my function in 10:36:27  
14 1992 to monitor all the credits; only the 10:36:35  
15 credits that I was assigned to monitor. 10:36:35  
16 Q. Let me ask you this: When did you 10:36:35  
17 become manager of the Healthcare Group in the 10:36:37  
18 Surveillance Department? 10:36:38  
19 A. I believe it was mid-to-late 1993; 10:36:40  
20 it might have been earlier; it was some time 10:36:44  
21 during 1993. 10:36:47  
22 Q. And how long did you hold that 10:36:49  
23 position? 10:36:50  
24 A. Till 2001. 10:36:54  
25 Q. And what was your next position? 10:36:59

Page 27

1 KARLEEN CARLSON STRAYER 10:36:59  
2 A. I became head of the new business 10:37:02  
3 group, healthcare new business group at MBIA 10:37:05  
4 doing originations. 10:37:09  
5 Q. What's your current title? 10:37:12  
6 A. My current title? 10:37:14  
7 Q. Yes. 10:37:16  
8 A. I'm the managing director. 10:37:16  
9 Q. You're the managing director of 10:37:24  
10 the Healthcare Group on the new business side, 10:37:26  
11 is that right? 10:37:28  
12 A. No. About four, five months ago I 10:37:29  
13 became head of the Municipal Structured Group 10:37:31  
14 at MBIA; it's basically our housing group. 10:37:34  
15 Q. So as of four to five months ago 10:37:39  
16 you no longer handle healthcare credits? 10:37:42  
17 A. That's right. 10:37:45  
18 Q. So I take it then in mid-to-late 10:37:56  
19 1993 when you were made manager of the 10:37:58  
20 Healthcare Group in the Surveillance 10:38:01  
21 Department, at that point in time you were 10:38:03  
22 given full responsibility for monitoring all 10:38:05  
23 of the healthcare credits that MBIA had at 10:38:07  
24 that time? 10:38:09  
25 A. That's right. 10:38:10

Page 28

1 KARLEEN CARLSON STRAYER 10:38:10  
2 Q. Were you also given responsibility 10:38:11  
3 for all of the remediation efforts, if any, 10:38:14  
4 that MBIA was undertaking at that point in 10:38:18  
5 time with respect to healthcare credits? 10:38:20  
6 A. Yes. 10:38:22  
7 Q. When you became manager of the 10:38:28  
8 Healthcare Group in mid-to-late 1993, I 10:38:29  
9 believe you mentioned that the Healthcare 10:38:35  
10 Group was re-shuffled as a staffing matter, is 10:38:40  
11 that right? 10:38:43  
12 A. Yes. 10:38:43  
13 Q. What was the structure of the 10:38:43  
14 group after you joined as manager? 10:38:45  
15 A. After I became manager? 10:38:49  
16 Q. Yes. 10:38:51  
17 A. I had to hire staff for the entire 10:38:52  
18 group. I started with an intern who later 10:38:58  
19 became an analyst and over time hired a fair 10:39:02  
20 number of people. 10:39:05  
21 Q. Who was the individual who started 10:39:08  
22 as an intern and later became an analyst? 10:39:10  
23 A. Ethan Parks. 10:39:13  
24 Q. Were there any other analysts -- 10:39:16  
25 withdrawn. 10:39:20

Page 29

1 KARLEEN CARLSON STRAYER 10:39:20  
2 Did you hire any other analyst in 10:39:21  
3 this rough time frame, late 1993 to 1994? 10:39:24  
4 A. 1994... I can't recall every one. 10:39:28  
5 It was primarily hiring not from the outside 10:39:35  
6 but internal moves; so, '93, '94, I suspect I 10:39:37  
7 probably ended up with five or so people in my 10:39:44  
8 group; maybe more. At one point I had 10 or 10:39:47  
9 12 in my group but I don't -- I'm sure it 10:39:50  
10 wasn't that many in '93, '94. 10:39:54  
11 Q. At what point in time did you have 10:39:57  
12 10 or 12 in your group? 10:39:58  
13 A. Probably around '98 or '99. And I 10:40:01  
14 also had responsibilities for some groups 10:40:08  
15 besides healthcare, so that's part of the 10:40:11  
16 reason my group was larger. 10:40:14  
17 Q. What are the other reasons why 10:40:17  
18 your group expanded at this point in time? 10:40:19  
19 A. Meaning other than the additional 10:40:23  
20 sectors that were being followed? 10:40:26  
21 Q. Yes. Yes. 10:40:28  
22 A. I think that because of the 10:40:29  
23 concern that MBIA had over certain credits in 10:40:34  
24 the portfolio, there was additional staffing 10:40:38  
25 added to my group. 10:40:41

Page 30

1 KARLEEN CARLSON STRAYER 10:40:41  
 2 Q. Do you recall any of those credits 10:40:46  
 3 during this time frame MBIA had additional 10:40:49  
 4 concern about? 10:40:54  
 5 A. In '93 or '94? 10:40:54  
 6 Q. No, I'm sorry, I thought you were 10:40:55  
 7 talking about '98. 10:40:56  
 8 A. Oh, '98, '99... There were a 10:40:57  
 9 number of credits in '98 and '99. I mean, 10:41:05  
 10 certainly in '98, the AHERF credit was first 10:41:08  
 11 and foremost, and a number of other credits 10:41:12  
 12 would have been very aggressively tracked, as 10:41:15  
 13 well; I don't know if you're looking for names 10:41:19  
 14 or. 10:41:22  
 15 Q. What were those other credits that 10:41:22  
 16 were being aggressively tracked as well in 10:41:24  
 17 this time frame? 10:41:26  
 18 MS. HACKETT: I don't know whether 10:41:27  
 19 or not you've been -- I don't know the terms 10:41:28  
 20 of the protective order in this case but I 10:41:30  
 21 think that when she discloses any names of 10:41:34  
 22 other customers, which I think are wholly 10:41:35  
 23 irrelevant to this, it should be put under the 10:41:39  
 24 terms of the protective order in this case, so 10:41:42  
 25 that this portion of the transcript is marked 10:41:43

Page 31

1 KARLEEN CARLSON STRAYER 10:41:43  
 2 "confidential." 10:41:47  
 3 MR. KRUSKO: Okay. 10:41:47  
 4 MS. HACKETT: Great. 10:41:48  
 5 MR. KRUSKO: I'm happy to do that 10:41:49  
 6 because; obviously, relevancy isn't a viable 10:41:51  
 7 objection. 10:41:51  
 8 MS. HACKETT: I'm just happy -- 10:41:53  
 9 MR. KRUSKO: I'm happy to include 10:41:55  
 10 whatever clients' she names in this time frame 10:41:56  
 11 under whatever applicable provisions of the 10:41:58  
 12 protective order that you would like them to 10:42:01  
 13 be included under. 10:42:03  
 14 MS. HACKETT: Well, is there a 10:42:04  
 15 protective order entered in this case? I'm 10:42:04  
 16 assuming there is. 10:42:07  
 17 MR. KRUSKO: Why don't I suggest 10:42:08  
 18 this? Why don't I suggest that I ask her my 10:42:09  
 19 questions along these lines and during the 10:42:14  
 20 break we can take a look at the protective 10:42:14  
 21 order and maybe we can make a stipulation off 10:42:17  
 22 the record and then go back on the record. 10:42:17  
 23 MR. WITTEN: There is a protective 10:42:19  
 24 order that covers the depositions and I don't 10:42:19  
 25 have it with me. 10:42:21

Page 32

1 KARLEEN CARLSON STRAYER 10:42:21  
 2 MR. KRUSKO: I do have it but I 10:42:22  
 3 don't want to take a break now and look at it 10:42:23  
 4 because I would like to continue with the 10:42:25  
 5 questions. 10:42:26  
 6 MS. HACKETT: I can't do that. I 10:42:27  
 7 mean, you're asking her for customer names 10:42:28  
 8 that have credit issues. 10:42:31  
 9 MR. KRUSKO: I'm not asking her to 10:42:33  
 10 disclose that. I'm just asking her for the 10:42:35  
 11 types of clients. Disclosure is another 10:42:45  
 12 issue; I'm telling you, we can put that under 10:42:45  
 13 the protective order. 10:42:45  
 14 MS. HACKETT: Okay, I don't draw 10:42:45  
 15 the same distinction between disclosure and 10:42:45  
 16 testify. To me, once she names them in the 10:42:45  
 17 public record, they're disclosed, and I would 10:42:45  
 18 like to have them under a protective order. I 10:42:46  
 19 appreciate your representation but I don't 10:42:48  
 20 know what the terms of those are. 10:42:49  
 21 MR. KRUSKO: Sure. Okay. Let's do 10:42:50  
 22 this: I will come back to this line of 10:42:51  
 23 questioning and we'll work it out during the 10:42:54  
 24 break. 10:42:57  
 25 MS. HACKETT: Sure. Perfect. 10:42:57

Page 33

1 KARLEEN CARLSON STRAYER 10:42:57  
 2 Q. Am I correct, then, that the 10:42:59  
 3 group, you know, the Healthcare Group in the 10:43:00  
 4 Surveillance Department went from roughly five 10:43:03  
 5 employees in the '92/'93 time frame to about 10:43:05  
 6 78 employees in the mid-1990s to about ten to 10:43:10  
 7 12 employees in the 1998/1999 time frame? 10:43:13  
 8 MR. WITTEN: Objection. 10:43:19  
 9 A. That would roughly be what the 10:43:21  
 10 numbers were, I can't recall exactly. And 10:43:24  
 11 also, to be more specific, the ten to 12 in 10:43:27  
 12 the later years was also because we were 10:43:30  
 13 monitoring not only healthcare but student 10:43:34  
 14 loans and housing, so we had additional 10:43:35  
 15 responsibilities in addition to healthcare. 10:43:38  
 16 Q. When did your group receive 10:43:41  
 17 responsibility for student loans and housing? 10:43:45  
 18 A. Actually, I believe it was -- 10:43:50  
 19 actually it was probably more like 2001, 2000 10:43:57  
 20 to 2001. But also, earlier than that they 10:44:01  
 21 started including something that was called 10:44:16  
 22 the "pool group," so there was -- so the 10:44:18  
 23 student loans and housing came in 2000 to 10:44:21  
 24 2001, probably early 2001; the pool group came 10:44:24  
 25 prior to that time, and that probably would 10:44:28

<p style="text-align: right;">Page 146</p> <p>1 KARLEEN CARLSON STRAYER 14:35:06</p> <p>2 concerned in the 1996 to 1998 time frame with 14:35:10</p> <p>3 the costs of the physician practice 14:35:16</p> <p>4 acquisitions versus the annual costs in 14:35:18</p> <p>5 supporting the expenses of those practices? 14:35:22</p> <p>6 A. That's probably too strong of a 14:35:25</p> <p>7 statement. I don't -- I mean, we were very 14:35:27</p> <p>8 focused on the capital costs but I don't -- I 14:35:30</p> <p>9 don't think we would have ignored the expense 14:35:33</p> <p>10 side of the equation either. 14:35:35</p> <p>11 Q. So you were very concerned, "you" 14:35:38</p> <p>12 being MBIA, with both components of the 14:35:40</p> <p>13 support that DVOG and AGH, the AGH Obligated 14:35:42</p> <p>14 Group made to AIHG? 14:35:48</p> <p>15 A. We were concerned with the amount 14:35:51</p> <p>16 of support in general that was being required 14:35:53</p> <p>17 for those physician practices; I don't know 14:35:58</p> <p>18 that we were specifically differentiating 14:36:01</p> <p>19 between the two types of support. 14:36:04</p> <p>20 Q. Is it your recollection that in 14:36:06</p> <p>21 this rough time frame, calendar 1995 and 14:36:08</p> <p>22 calendar 1996, that the support provided by 14:36:13</p> <p>23 the DVOG and the AGH Obligated Group 14:36:16</p> <p>24 increased? 14:36:19</p> <p>25 A. I don't know. They were on 14:36:23</p>	<p style="text-align: right;">Page 148</p> <p>1 KARLEEN CARLSON STRAYER 14:37:51</p> <p>2 condition of the DVOG entities in the months 14:37:56</p> <p>3 leading up to the DVOG offering? 14:37:59</p> <p>4 MR. WITTEN: Objection. 14:38:01</p> <p>5 MR. KRUSKO: Just out of curiosity, 14:38:03</p> <p>6 what's your objection? 14:38:05</p> <p>7 MR. WITTEN: I didn't understand 14:38:06</p> <p>8 the question because there were too many time 14:38:06</p> <p>9 periods. 14:38:08</p> <p>10 MR. KRUSKO: Okay. I appreciate 14:38:09</p> <p>11 it. 14:38:10</p> <p>12 Q. Again, after the DVOG bond 14:38:12</p> <p>13 offering, when you, as manager of the 14:38:13</p> <p>14 Healthcare Group in the Surveillance 14:38:19</p> <p>15 Department were responsible for the monitoring 14:38:22</p> <p>16 functions with respect to DVOG, in that time 14:38:23</p> <p>17 frame, do you recall discussing with anyone at 14:38:25</p> <p>18 MBIA the condition of the DVOG entities in the 14:38:28</p> <p>19 months leading up to the DVOG offer? 14:38:31</p> <p>20 A. We did review -- subsequent to the 14:38:41</p> <p>21 bond offering, the audited financial reports 14:38:42</p> <p>22 came out on DVOG and the analyst who was 14:38:46</p> <p>23 assigned to review the credit reviewed those 14:38:53</p> <p>24 financial reports, and expressed concern over 14:38:55</p> <p>25 the transfers to the physician group; so, 14:38:58</p>
<p style="text-align: right;">Page 147</p> <p>1 KARLEEN CARLSON STRAYER 14:36:23</p> <p>2 fiscal-year basis, so we would have been 14:36:28</p> <p>3 looking at their financials on a fiscal-year 14:36:31</p> <p>4 basis, and I actually wasn't reviewing the 14:36:33</p> <p>5 credit at all in 1995, I, personally was not. 14:36:38</p> <p>6 Q. The very last sentence that 14:36:44</p> <p>7 appears on page A-9 of Exhibit 408 states: 14:36:48</p> <p>8 For the ten-month period ended April 30, 1996, 14:36:52</p> <p>9 the total of such support is 38,256,000; do 14:36:55</p> <p>10 you see that? 14:37:02</p> <p>11 A. Yes. 14:37:02</p> <p>12 Q. Is that consistent with your 14:37:02</p> <p>13 recollection as to the level of support that 14:37:03</p> <p>14 AIHG was receiving in this time frame? 14:37:06</p> <p>15 MR. WITTEN: Objection. 14:37:13</p> <p>16 A. I don't have a specific numeric 14:37:14</p> <p>17 recollection of the amount of support. 14:37:15</p> <p>18 Q. At any point in time after the 14:37:27</p> <p>19 DVOG bond offering, did you discuss with 14:37:32</p> <p>20 anyone at MBIA the condition of the parent 14:37:34</p> <p>21 company, AHERF, the parent company, in the 14:37:42</p> <p>22 months leading up to the DVOG offer? 14:37:44</p> <p>23 A. No. 14:37:46</p> <p>24 Q. Did you ever again after the DVOG 14:37:48</p> <p>25 bond offering discuss with anyone at MBIA the 14:37:51</p>	<p style="text-align: right;">Page 149</p> <p>1 KARLEEN CARLSON STRAYER 14:38:58</p> <p>2 given that some of those transfers might have 14:39:02</p> <p>3 occurred during the part of the year before 14:39:04</p> <p>4 the bond offering, I guess the answer to your 14:39:06</p> <p>5 question would be yes. 14:39:10</p> <p>6 Q. Okay. Now, I appreciate that. 14:39:12</p> <p>7 Let me just hopefully conclude with what 14:39:16</p> <p>8 should be a simple question: 14:39:19</p> <p>9 Did you ever discuss with anyone 14:39:20</p> <p>10 at MBIA at any point in time the condition of 14:39:23</p> <p>11 AHERF during the first half of calendar 1996? 14:39:28</p> <p>12 A. Not specifically the first half 14:39:36</p> <p>13 1996; I'm not sure I ever saw those numbers. 14:39:38</p> <p>14 Q. And so I take it you don't recall 14:39:44</p> <p>15 ever learning whether AHERF, the parent 14:39:46</p> <p>16 entity, experienced financial difficulties in 14:39:49</p> <p>17 April 1996? 14:39:53</p> <p>18 A. No. I mean, we -- if we felt they 14:39:56</p> <p>19 were having financial difficulties, we would 14:40:01</p> <p>20 not have insured the credit, so clearly, we 14:40:02</p> <p>21 didn't believe they were having financial 14:40:05</p> <p>22 difficulties at this point in time. 14:40:08</p> <p>23 Q. So it's your belief that MBIA had 14:40:12</p> <p>24 learned of losses in April of 1996 at AHERF, 14:40:15</p> <p>25 the parent company, that that would have been 14:40:19</p>



Page 150

1 KARLEEN CARLSON STRAYER 14:40:19  
 2 a negative factor in terms of MBIA's decision 14:40:22  
 3 to provide bond insurance? 14:40:24  
 4 A. It could have been. It would 14:40:30  
 5 depend, you know; it would be case-specific to 14:40:32  
 6 the case and it would depend on the reason for 14:40:37  
 7 the losses and the extent of the losses and 14:40:38  
 8 how the rest of the system had looked and 14:40:40  
 9 whole host of the factors that would go into 14:40:43  
 10 our thinking on that. 14:40:46  
 11 Q. Just so we're clear, is it your 14:40:47  
 12 recollection that the DVOG was on a June 30 14:40:49  
 13 calendar year? 14:40:51  
 14 A. Yes. 14:40:52  
 15 MR. WITTEN: Fiscal year. 14:40:54  
 16 MR. KRUSKO: Thank you. 14:40:55  
 17 A. Fiscal year. 14:40:56  
 18 MR. WITTEN: They're in a different 14:40:59  
 19 universe. 14:41:00  
 20 Q. I believe you testified earlier 14:41:02  
 21 that some time after the DVOG bond offering an 14:41:03  
 22 analyst in the Healthcare Group in the 14:41:11  
 23 Surveillance Department received the FY '96 14:41:12  
 24 audited financial statements for the DVOG 14:41:17  
 25 entities? 14:41:19

Page 151

1 KARLEEN CARLSON STRAYER 14:41:19  
 2 A. Yes. 14:41:20  
 3 Q. Who was that analyst? 14:41:21  
 4 A. Dick Heberton. 14:41:23  
 5 Q. Did you assign the Delaware Valley 14:41:33  
 6 Obligated Group to Mr. Heberton? 14:41:33  
 7 A. Apparently I did; he was the 14:41:33  
 8 analyst who tracked it, so I must have. 14:41:33  
 9 Q. When you say "he was the analyst 14:41:37  
 10 who tracked it," what period of time did you 14:41:39  
 11 have in mind in making that statement? 14:41:44  
 12 A. He tracked -- he was the first 14:41:46  
 13 person that surfaced this credit to me as 14:41:51  
 14 potentially experiencing financial problems, 14:41:56  
 15 so that would have been whenever he received 14:41:59  
 16 the financial statements for 1996. 14:42:06  
 17 And then, during the early part of 14:42:09  
 18 1997, he was the analyst; at some point during 14:42:13  
 19 that year he transitioned to a different group 14:42:18  
 20 and a different person took over, so he was 14:42:22  
 21 following it very closely for at least through 14:42:25  
 22 part of 1997. 14:42:29  
 23 Q. What was Mr. Heberton's next 14:42:35  
 24 position after he left the Healthcare Group in 14:42:37  
 25 the Surveillance Department? 14:42:39

Page 152

1 KARLEEN CARLSON STRAYER 14:42:39  
 2 A. He stayed in the Surveillance 14:42:40  
 3 Department; he became manager of, I believe it 14:42:43  
 4 was a Tax-Backed Group. 14:42:47  
 5 Q. Did you say "tax," t-a-x? 14:42:50  
 6 A. Yes, tax-backed, insured 14:42:53  
 7 tax-backed bonds. 14:42:56  
 8 Q. Do you recall whether Mr. Heberton 14:42:58  
 9 stayed in that position through July of 1998? 14:42:59  
 10 A. I believe so. 14:43:06  
 11 Q. When Mr. Heberton left the 14:43:07  
 12 Healthcare Group in the Surveillance 14:43:09  
 13 Department, who assumed his responsibilities 14:43:11  
 14 with respect to the DVOG? 14:43:13  
 15 A. Chip Reilly. 14:43:15  
 16 Q. In this rough time frame, July of 14:43:24  
 17 1996 through mid-1997 when Mr. Heberton left 14:43:26  
 18 the Healthcare Group, who was responsible for 14:43:30  
 19 monitoring Allegheny General Hospital? 14:43:35  
 20 A. I don't recall. It very likely 14:43:40  
 21 was Dick because they were such related 14:43:48  
 22 entities, but I think it was Dick. I don't 14:43:51  
 23 think we would have had anyone else working on 14:43:56  
 24 that one. 14:43:58  
 25 Q. And that would have been your 14:43:59

Page 153

1 KARLEEN CARLSON STRAYER 14:43:59  
 2 decision to make? 14:44:00  
 3 A. Yes. 14:44:02  
 4 Q. Do you recall whether, when 14:44:06  
 5 Mr. Reilly assumed Mr. Heberton's functions 14:44:09  
 6 sometime in 1997 with respect to the DVOG, 14:44:13  
 7 whether he assumed monitoring functions for 14:44:16  
 8 AGH, as well? 14:44:20  
 9 A. I believe so. 14:44:23  
 10 Q. And again, that would have been 14:44:24  
 11 your decision to make? 14:44:25  
 12 A. Yes. 14:44:27  
 13 Q. If I could show you what we 14:44:33  
 14 previously marked as 1884. 14:44:35  
 15 MR. WITTEN: You know, we only took 14:44:46  
 16 a break not long ago, can I take another 14:44:49  
 17 bathroom break? 14:44:55  
 18 MR. KRUSKO: Sure. 14:44:57  
 19 THE VIDEO OPERATOR: Going off the 14:44:58  
 20 record at 2:44. 14:44:58  
 21 (Recess taken.) 14:45:03  
 22 THE VIDEO OPERATOR: Returning to 14:48:06  
 23 the record at 2:48 from 2:44. 14:48:06  
 24 Q. Welcome back, Ms. Strayer. 14:48:09  
 25 Do you have before you Exhibit 14:48:11

Page 154

1 KARLEEN CARLSON STRAYER 14:48:11  
2 1884? 14:48:12  
3 A. Yes. 14:48:13  
4 Q. Do you recognize Exhibit 1884 as a 14:48:13  
5 copy of the FY '96 audited financial 14:48:16  
6 statements for the Delaware Valley Obligated 14:48:20  
7 Group, among some other documents? 14:48:24  
8 A. Yes. 14:48:25  
9 Q. If you'll turn with me to the 14:48:34  
10 second page of this exhibit, do you see here a 14:48:36  
11 letter dated October 31st, 1996 from Kelly 14:48:41  
12 Mertz to Emmeline Rocha-Sinha? 14:48:48  
13 A. Yes. 14:48:50  
14 Q. In this letter, Ms. Mertz 14:48:50  
15 indicates that she has provided the FY '96 14:48:52  
16 audited financial statements for the DVOG, is 14:48:56  
17 that right? 14:48:58  
18 A. Yes. 14:48:59  
19 Q. And towards the bottom of this 14:48:59  
20 letter, Ms. Rocha-Sinha has written "11/11/96 14:49:01  
21 Karleen FYR, E," is that correct? 14:49:07  
22 A. Yes. 14:49:11  
23 Q. I take it "FYR" is "for your 14:49:11  
24 review"? 14:49:13  
25 A. Yes. 14:49:14

Page 156

1 KARLEEN CARLSON STRAYER 14:50:11  
2 them on to the analyst that was responsible 14:50:14  
3 for the particular credit? 14:50:17  
4 A. Yes. 14:50:19  
5 Q. Did you ever contact AHERF and 14:50:22  
6 direct them to send financial statements 14:50:26  
7 directly to Mr. Heberton or another analyst 14:50:29  
8 working in the Surveillance Department? 14:50:33  
9 A. I don't recall. 14:50:35  
10 Q. Do you remember directing anyone 14:50:39  
11 in your staff to contact AHERF in that manner? 14:50:39  
12 A. I don't recall. 14:50:45  
13 Q. I believe you testified that it's 14:50:54  
14 your understanding that Mr. Heberton, on 14:50:55  
15 reviewing these statements, was concerned 14:50:57  
16 about the transfers from the DVOG to Allegheny 14:51:00  
17 Integrated Health Group? 14:51:06  
18 A. Yes. 14:51:08  
19 Q. Would you turn with me to page 14:51:22  
20 MBIA 015821, I believe it's Page 3 of the 14:51:25  
21 document. 14:51:30  
22 Do you recognize this as the 14:51:38  
23 fiscal year 1996 audited income statement for 14:51:39  
24 the DVOG? 14:51:43  
25 A. Yes, I guess they're calling it 14:51:47

Page 155

1 KARLEEN CARLSON STRAYER 14:49:14  
2 Q. Do you recall receiving these 14:49:16  
3 audited financial statements? 14:49:17  
4 A. No, I don't recall. 14:49:20  
5 Q. Do you recall reviewing these 14:49:21  
6 audited financial statements? 14:49:23  
7 A. I recall looking at them much 14:49:28  
8 later than this date. 14:49:29  
9 Q. "Much later" meaning sometime in 14:49:33  
10 calendar 1997? 14:49:35  
11 A. I believe so. I would have -- 14:49:38  
12 this is something that would have gone to the 14:49:42  
13 analyst that was reviewing this credit; I 14:49:44  
14 wouldn't preview every credit that we had on 14:49:47  
15 the portfolio myself. 14:49:49  
16 Q. Did you have an understanding at 14:49:54  
17 the time why Ms. Rocha-Sinha was directing 14:49:55  
18 these statements to you personally, given that 14:49:56  
19 you didn't review all the statements sent to 14:49:58  
20 you? 14:50:01  
21 A. Sure. I was manager of the group 14:50:01  
22 and Emmeline had no way of knowing who I had 14:50:04  
23 assigned various credit reviews to, so she 14:50:08  
24 would send them all to me. 14:50:10  
25 Q. And you would, in turn, forward 14:50:11

Page 157

1 KARLEEN CARLSON STRAYER 14:51:47  
2 the "combined statement of operations" but 14:51:57  
3 it's the income statement. 14:51:57  
4 Q. Do you notice the very last -- 14:51:57  
5 excuse me, the second-to-last entry to 14:51:57  
6 "transfers to affiliates, net"? 14:52:01  
7 A. Yes. 14:52:03  
8 Q. And listed is \$73,676,000? 14:52:03  
9 A. Yes. 14:52:09  
10 Q. Is it your recollection that it's 14:52:11  
11 that transfer that caught Mr. Heberton's 14:52:13  
12 attention? 14:52:15  
13 A. Yes. 14:52:18  
14 Q. And so, Mr. Heberton was able, by 14:52:21  
15 conducting a review of the fiscal year 1996 14:52:25  
16 audited financial statements for the DVOG, to 14:52:28  
17 determine that the Delaware Valley Obligated 14:52:33  
18 Group was transferring tens of millions of 14:52:34  
19 dollars outside the Obligated Group? 14:52:39  
20 A. Yes. 14:52:41  
21 Q. And do you recall him calling 14:52:42  
22 these transfers to your attention? 14:52:43  
23 A. Yes. 14:52:45  
24 Q. And what did you do as a result? 14:52:48  
25 A. We contacted the people at the 14:52:52

Page 158			Page 160		
1	KARLEEN CARLSON STRAYER	14:52:52	1	KARLEEN CARLSON STRAYER	14:54:57
2	hospital, had multiple conversations with	14:52:55	2	dialogue was primarily of him explaining the	14:55:00
3	them; at some point had visits; and internally	14:52:58	3	transactions, the reasons for the	14:55:04
4	we downgraded the credit.	14:53:02	4	transactions, and what was happening.	14:55:06
5	Q. When you say "hospital," I'm just	14:53:07	5	Ultimately, they agreed to stop	14:55:09
6	concerned to have a clear record because it's	14:53:09	6	acquiring physician practices or they told us	14:55:14
7	my understanding that the Delaware Valley	14:53:11	7	they were going to stop acquiring physician	14:55:16
8	Obligated Group was comprised of many	14:53:12	8	practices.	14:55:19
9	hospitals; was that your understanding?	14:53:14	9	Q. But is it fair to say, then, your	14:55:20
10	A. That's true.	14:53:15	10	initial contact, during your initial contacts	14:55:23
11	Q. Okay. So when you say "we	14:53:16	11	with Mr. Martin, he simply explained the	14:55:26
12	contacted the hospital," what did you mean by	14:53:17	12	physician practice acquisition strategy to	14:55:31
13	that?	14:53:19	13	you?	14:55:36
14	A. I believe that the person we were	14:53:20	14	A. Right. And the reasons for the	14:55:37
15	in primary contact with was Michael Martin.	14:53:22	15	transfer.	14:55:39
16	Q. It's my understanding that	14:53:28	16	Q. Did you ask Mr. Martin for any	14:55:40
17	Mr. Martin was vice-president of AHERF's	14:53:28	17	representations that additional transfers were	14:55:43
18	Treasury Department; is that your	14:53:30	18	not to be made?	14:55:46
19	recollection?	14:53:32	19	A. I'm sure we encouraged him not to	14:55:49
20	A. I remember him being treasurer,	14:53:33	20	make additional transfers but I don't believe	14:55:52
21	so; I don't know his official title.	14:53:36	21	at that point in time he was willing to do	14:55:54
22	Q. Do you recall any contact or	14:53:40	22	that.	14:55:56
23	communication you had with Mr. Martin in the	14:53:43	23	Q. When you say "I'm sure we	14:55:57
24	November 1996 time frame concerning these	14:53:46	24	encouraged him," is there any document that	14:55:59
25	transfers to affiliates?	14:53:48	25	reflects your encouragement to Mr. Martin that	14:56:01
Page 159			Page 161		
1	KARLEEN CARLSON STRAYER	14:53:48	1	KARLEEN CARLSON STRAYER	14:56:01
2	A. We had conversations with Mike	14:53:55	2	AHERF not pursue additional physician practice	14:56:04
3	Martin about these transfers; I don't know	14:53:56	3	acquisitions?	14:56:10
4	that it was November; it was probably after	14:53:59	4	A. I don't recall.	14:56:10
5	November.	14:54:02	5	Q. And do you recall specifically	14:56:13
6	Q. Did you express concerns to him	14:54:03	6	what you told Mr. Martin in an attempt to	14:56:14
7	about these transfers?	14:54:05	7	dissuade AHERF from pursuing additional	14:56:18
8	A. Yes.	14:54:08	8	physician practice acquisitions?	14:56:22
9	Q. Why?	14:54:08	9	A. No, I don't.	14:56:24
10	A. Because they were large.	14:54:08	10	Q. So you don't have any basis for	14:56:27
11	Q. Why would that matter?	14:54:10	11	saying that you're sure that you told him that	14:56:28
12	A. Because it showed that there were	14:54:13	12	MBIA would prefer that AHERF not engage in	14:56:31
13	significant resources that were leaving the	14:54:16	13	additional physician practice acquisitions?	14:56:34
14	Obligated Group, and being spent on physician	14:54:18	14	MR. WITTEN: Objection.	14:56:36
15	practices which could be a good strategy but,	14:54:22	15	A. I -- the basis is that we had	14:56:40
16	in this case, it was costing a lot of money	14:54:27	16	downgraded a credit and I believe we	14:56:42
17	and we thought it was very significant.	14:54:29	17	downgraded it to the caution list, which was a	14:56:45
18	Q. And that was reflected fairly in	14:54:35	18	sign of what we felt was financial distress;	14:56:48
19	the audited fiscal year 1996 Delaware Valley	14:54:36	19	the primary reason was the large amounts that	14:56:50
20	Obligated Group financial statements?	14:54:41	20	were being transferred over to the physician	14:56:53
21	A. Yes.	14:54:43	21	practice, and given that we had these	14:56:55
22	MR. WITTEN: Objection.	14:54:43	22	conversations with Mike, I -- I remember	14:57:00
23	Q. What was Mr. Martin's response?	14:54:45	23	having the conversations; I cannot tell you	14:57:07
24	A. I recall that -- a lot, at this	14:54:53	24	the specifics of the conversations, but this	14:57:08
25	stage, at the very initial stages, our	14:54:57	25	was the big issue, initially, that we were	14:57:10



Page 162

1 KARLEEN CARLSON STRAYER 14:57:10  
2 discussing with them and the reason for our 14:57:12  
3 initial concern. 14:57:16  
4 Q. Do you have an understanding as to 14:57:20  
5 what a "below-the-line entry" is? 14:57:23  
6 A. Yes. 14:57:28  
7 Q. And what's your understanding of 14:57:28  
8 that term? 14:57:29  
9 A. "Below-the-line," my understanding 14:57:30  
10 is that would be an entity that would not 14:57:32  
11 affect the net income of the entity. 14:57:35  
12 Q. Did you say "an entry that would 14:57:40  
13 affect the net income of an entity"? 14:57:42  
14 A. Right, an item, an expense or 14:57:44  
15 something like that. 14:57:47  
16 Q. So looking here at Page 3 of 14:57:49  
17 Exhibit 1884, where would the line be? 14:57:53  
18 A. Well, you could say it is either 14:58:00  
19 the net loss of 1.3 million or you could also 14:58:04  
20 say it's the 26.8 because those items that are 14:58:16  
21 after the 26.8 are one-time accounting-type 14:58:16  
22 entries that don't affect cash or, you know, 14:58:20  
23 the true income number, or anything else. 14:58:22  
24 So I believe analysts could call 14:58:26  
25 either one of those numbers "below-the-line." 14:58:28

Page 164

1 KARLEEN CARLSON STRAYER 14:59:29  
2 not trigger the debt service coverage ratio? 14:59:32  
3 A. Because of the way that definition 14:59:35  
4 is defined in the bond documents. 14:59:37  
5 Q. And these are bond documents that 14:59:39  
6 MBIA either drafted or approved in connection 14:59:42  
7 with its decision to provide insurance for the 14:59:44  
8 fixed rate DVOG bonds? 14:59:50  
9 A. Yes. 14:59:53  
10 Q. Did you, as the manager of the 14:59:56  
11 Healthcare Group in the Surveillance 14:59:58  
12 Department, view the drafting of the debt 15:00:00  
13 service coverage ratio as a problem for that 15:00:04  
14 reason? 15:00:08  
15 A. It -- that definition is very 15:00:10  
16 common in the industry and remains so today; 15:00:13  
17 so while it wasn't our preferred way of 15:00:17  
18 calculating or, or measuring the financial 15:00:19  
19 strength, it is, it is an industry standard. 15:00:23  
20 Q. Okay. And so while it wasn't 15:00:26  
21 MBIA's preferred way of measuring the 15:00:28  
22 financial strength, it was one that MBIA 15:00:31  
23 agreed to in connection with its decision to 15:00:33  
24 provide bond insurance to the DVOG entities? 15:00:36  
25 A. I wouldn't say "MBIA"; I would say 15:00:42

Page 163

1 KARLEEN CARLSON STRAYER 14:58:28  
2 Q. "Transfers to affiliates, net" 14:58:32  
3 appears below the line on Page 3, under either 14:58:35  
4 definition of what the "line" is, correct? 14:58:42  
5 A. That's true. 14:58:44  
6 Q. And as a result, it doesn't have 14:58:45  
7 any impact on net income before extraordinary 14:58:48  
8 item and change in accounting principles for 14:58:52  
9 net loss? 14:58:57  
10 A. That's true. 14:58:58  
11 Q. Was that a concern to you as 14:58:59  
12 manager of MBIA's Healthcare Group in the 14:59:01  
13 Surveillance Department? 14:59:03  
14 A. Yes, it was. 14:59:04  
15 Q. And why was it a concern to you? 14:59:05  
16 A. Because it clearly was a 14:59:08  
17 dissipation of the financial strength of the 14:59:12  
18 Delaware Valley Obligated Group, and yet, it 14:59:14  
19 would not trigger our covenant because it was 14:59:16  
20 below the line. 14:59:19  
21 Q. When you say "our covenant," which 14:59:20  
22 are you referring to? 14:59:22  
23 A. The debt service coverage ratio. 14:59:23  
24 Q. And why would a below-the-line 14:59:28  
25 entry such as "transfers to affiliates, net" 14:59:29

Page 165

1 KARLEEN CARLSON STRAYER 15:00:42  
2 me. You know, I would have preferred a 15:00:44  
3 different calculation. I can't speak to the 15:00:48  
4 new business analysts; they were perhaps 15:00:49  
5 comfortable with it, I don't know. 15:00:52  
6 Q. In this time frame, late October 15:01:12  
7 to earlier November calendar 1996 when you 15:01:15  
8 discussed this issue with Mr. Heberton, and 15:01:21  
9 possibly Mr. Martin, did you contact anyone in 15:01:24  
10 the Healthcare Group on the new business side 15:01:32  
11 to discuss this issue? 15:01:35  
12 MR. WITTEN: Objection. 15:01:36  
13 A. I don't recall. I could point out 15:01:40  
14 that we did issue an Alert Report, which was 15:01:45  
15 disseminated to the people in the new business 15:01:48  
16 Healthcare Group, that would have indicated 15:01:51  
17 our downgrade of the credit and our concerns. 15:01:54  
18 Q. If I can show you what's been 15:02:25  
19 previously marked as Exhibit 1885. And if I 15:02:27  
20 could ask you at the outset, Ms. Strayer, do 15:02:54  
21 you recognize this document? 15:02:58  
22 A. No. 15:02:59  
23 Q. Do you recall in the October 1996 15:03:03  
24 time frame hearing that AHERF had requested 15:03:06  
25 extensions of various financial reporting 15:03:14

<p style="text-align: right;">Page 174</p> <p>1 KARLEEN CARLSON STRAYER 15:14:35</p> <p>2 A. No, I did not. 15:14:35</p> <p>3 Q. No, you did not suggest any 15:14:36</p> <p>4 changes to the transcript? 15:14:38</p> <p>5 A. That's correct. 15:14:39</p> <p>6 Q. Now, I put before you Exhibit 15:14:42</p> <p>7 2192: Do you recognize this as a copy of the 15:14:45</p> <p>8 transcript of that day's deposition? 15:14:50</p> <p>9 A. Yes. 15:14:55</p> <p>10 Q. Would you turn with me to Page 83, 15:14:57</p> <p>11 I'm going in a sort of minuscule format. I'm 15:15:05</p> <p>12 going according to the page numbers that are 15:15:10</p> <p>13 sort of in the center and they go off to the 15:15:13</p> <p>14 right. 15:15:20</p> <p>15 A. Okay. 15:15:20</p> <p>16 Q. Let me, if I could, direct you to 15:15:21</p> <p>17 your answer and then, why don't you take as 15:15:23</p> <p>18 much time as you need to just sort of 15:15:25</p> <p>19 familiarize yourself again with the testimony: 15:15:29</p> <p>20 There's some questioning, rather, 15:15:36</p> <p>21 about some financial statements and then you 15:15:38</p> <p>22 give the testimony beginning on line 6: 15:15:40</p> <p>23 "Well, we would like the financial 15:15:43</p> <p>24 statements as soon as we would get them, so 15:15:44</p> <p>25 that we are working with current information." 15:15:47</p>	<p style="text-align: right;">Page 176</p> <p>1 KARLEEN CARLSON STRAYER 15:17:10</p> <p>2 changed? 15:17:13</p> <p>3 A. Well -- 15:17:19</p> <p>4 MR. KRUSKO: Let me withdraw that, 15:17:19</p> <p>5 let me withdraw that. I think I understand 15:17:21</p> <p>6 where the trouble may be with that question. 15:17:22</p> <p>7 Q. I take it you didn't raise this 15:17:25</p> <p>8 issue with Mr. Heberton because you were 15:17:26</p> <p>9 relying on Mr. Heberton to raise with you any 15:17:29</p> <p>10 problems that he saw with respect to the 15:17:34</p> <p>11 reporting requirements in the Financial 15:17:37</p> <p>12 Guaranty Agreement? 15:17:41</p> <p>13 MR. WITTEN: Objection. 15:17:41</p> <p>14 A. I would have expected Dick to 15:17:44</p> <p>15 bring to my attention if he was having concern 15:17:46</p> <p>16 over the timeliness of the receipt of the 15:17:50</p> <p>17 financial information; I don't know 15:17:53</p> <p>18 specifically whether we would have been 15:17:54</p> <p>19 focusing on the document requirements. 15:17:56</p> <p>20 Q. But in addition to concerns about 15:18:00</p> <p>21 the timeliness of the reporting requirements, 15:18:03</p> <p>22 did you also expect him to call to your 15:18:07</p> <p>23 attention potential problems that he foresaw 15:18:10</p> <p>24 with reporting requirements based on his 15:18:15</p> <p>25 knowledge of the financial condition of the 15:18:18</p>
<p style="text-align: right;">Page 175</p> <p>1 KARLEEN CARLSON STRAYER 15:15:47</p> <p>2 Do you see that? 15:15:49</p> <p>3 A. Yes. 15:15:50</p> <p>4 MS. HACKETT: I'm on the wrong 15:15:52</p> <p>5 page. 15:15:54</p> <p>6 MR. KRUSKO: 83. 15:15:55</p> <p>7 MS. HACKETT: Okay, thank you. 15:16:00</p> <p>8 A. Okay. 15:16:15</p> <p>9 Q. So I take it, with respect to 15:16:18</p> <p>10 troubled credits, MBIA would like the 15:16:23</p> <p>11 financial statements as soon as it could get 15:16:28</p> <p>12 them so they could work with current 15:16:31</p> <p>13 information? 15:16:34</p> <p>14 A. Sure. Actually, with any credit, 15:16:35</p> <p>15 but in particular, troubled credits. 15:16:37</p> <p>16 Q. Right. 15:16:39</p> <p>17 So when you received -- pardon me 15:16:44</p> <p>18 -- when you discussed with Mr. Heberton the FY 15:16:49</p> <p>19 '96 audited financial statements from DVOG, 15:16:51</p> <p>20 you didn't raise the issue of reporting 15:16:59</p> <p>21 requirements? 15:17:01</p> <p>22 A. No. 15:17:02</p> <p>23 Q. Because you were counting on 15:17:04</p> <p>24 Mr. Heberton to make the decision whether 15:17:05</p> <p>25 those reporting requirements should be 15:17:10</p>	<p style="text-align: right;">Page 177</p> <p>1 KARLEEN CARLSON STRAYER 15:18:18</p> <p>2 credit? 15:18:21</p> <p>3 A. Sure. If they, if they had had 15:18:23</p> <p>4 been outside of the bounds of what we normally 15:18:25</p> <p>5 expect to see in this industry, it is -- it's 15:18:27</p> <p>6 something that an analyst would look at. 15:18:32</p> <p>7 I guess what I'm saying is that 15:18:40</p> <p>8 the numbers that are showing up in these 15:18:41</p> <p>9 documents are not unusually long periods of 15:18:45</p> <p>10 times, they're within industry norms, so we 15:18:47</p> <p>11 would have had no reason to focus on that. 15:18:50</p> <p>12 Q. I take it industry norms -- I take 15:18:53</p> <p>13 it by "industry norms" you mean to say that 15:19:01</p> <p>14 there are norms in terms of reporting 15:19:04</p> <p>15 requirements for credits that are not 15:19:06</p> <p>16 experiencing any financial problems? 15:19:08</p> <p>17 A. Well, we have -- these reporting 15:19:13</p> <p>18 requirements are put into the bond documents 15:19:16</p> <p>19 when the bonds are issued, and typically those 15:19:18</p> <p>20 bond documents are not amended unless there's 15:19:21</p> <p>21 a request or -- a request from the client; so, 15:19:24</p> <p>22 it's not, it's not something we focus on 15:19:30</p> <p>23 regularly. It goes in the documents and it is 15:19:33</p> <p>24 what it is. But there are standards for the 15:19:35</p> <p>25 documents that we would expect to see, yes. 15:19:37</p>

Page 178

1 KARLEEN CARLSON STRAYER 15:19:37  
 2 Q. Okay. And MBIA does not have the 15:19:40  
 3 power to unilaterally alter the terms of bond 15:19:42  
 4 documents? 15:19:49  
 5 A. That's true. 15:19:49  
 6 Q. And I guess what I'm getting at 15:19:53  
 7 with this is when you say that these ranges 15:19:54  
 8 that you're seeing with respect to the request 15:19:57  
 9 for an extension letter, those ranges are 15:19:59  
 10 within industry norms? 15:20:03  
 11 A. Yes. 15:20:05  
 12 Q. If I'm understanding your 15:20:05  
 13 testimony correctly. 15:20:06  
 14 A. Yes. 15:20:09  
 15 Q. Okay. 15:20:09  
 16 And what I'm asking you, though, 15:20:11  
 17 is if in light of what you saw weeks later in 15:20:12  
 18 the financial statements, you were counting on 15:20:15  
 19 Mr. Heberton to call to your attention 15:20:18  
 20 potential problems he saw with those reporting 15:20:21  
 21 requirements? 15:20:24  
 22 A. I guess that's assuming that he 15:20:31  
 23 saw problems with reporting requirements, so 15:20:33  
 24 given how quickly he was looking at the 15:20:43  
 25 financial statements -- I don't know that 15:20:44

Page 180

1 KARLEEN CARLSON STRAYER 15:21:52  
 2 unfolding, so I think Dick did exactly what he 15:21:57  
 3 should have done. 15:22:00  
 4 Q. Okay. Let me just make sure I'm 15:22:01  
 5 understanding your testimony correctly: 15:22:03  
 6 Mr. Heberton, as the analyst in 15:22:06  
 7 the Healthcare Group of the Surveillance 15:22:10  
 8 Department, received Exhibit 1885 and 15:22:14  
 9 forwarded it to Mr. Reilly? 15:22:17  
 10 MR. WITTEN: Objection. 15:22:21  
 11 A. No, I didn't say that. 15:22:21  
 12 Q. Okay. 15:22:22  
 13 A. I doubt, I doubt Chip Reilly even 15:22:25  
 14 looked at those financial statements at that 15:22:27  
 15 time. 15:22:32  
 16 Q. Okay. But I'm sorry, perhaps 15:22:32  
 17 we're on different pages? 15:22:34  
 18 A. Did I misunderstand the question? 15:22:35  
 19 Q. We may be on different pages. 15:22:37  
 20 A. Okay. 15:22:39  
 21 Q. If you could take out Exhibit 15:22:39  
 22 1885. 15:22:41  
 23 A. Okay. 15:22:43  
 24 Q. Okay? How is it that this 15:22:44  
 25 document arrived on Mr. Reilly's desk, so to 15:22:49

Page 179

1 KARLEEN CARLSON STRAYER 15:20:44  
 2 that's something that would have even 15:20:46  
 3 registered at that point in time. This was 15:20:55  
 4 not really outside the bounds of, of what we 15:20:55  
 5 would have expected. 15:20:55  
 6 Q. So when you say "given how quickly 15:20:58  
 7 he was looking at the financial statements," I 15:20:59  
 8 take it you were under the impression that 15:21:02  
 9 Mr. Heberton was conducting a cursory review 15:21:05  
 10 of the audited FY '96 DVOG financial 15:21:09  
 11 statements? 15:21:12  
 12 A. No, no. By "quickly," I meant 15:21:13  
 13 timely, not how fast he did it. I meant the 15:21:16  
 14 timeliness in terms of the fact that the 15:21:20  
 15 audits -- this transaction had very recently 15:21:23  
 16 closed. We would have had no reason to 15:21:29  
 17 anticipate that there was a problem with this 15:21:30  
 18 credit, and getting the financial statements 15:21:33  
 19 of what we assumed to be a healthy credit by 15:21:36  
 20 November of that year would not have been 15:21:39  
 21 outside the norm. 15:21:41  
 22 And the fact that Dick looked at 15:21:42  
 23 them and we downgraded it, I believe by 15:21:44  
 24 February, is a very, to me, a very proactive 15:21:47  
 25 response to the financial situation as it was 15:21:52

Page 181

1 KARLEEN CARLSON STRAYER 15:22:49  
 2 speak, for his signature? 15:22:56  
 3 MR. WITTEN: Objection. 15:22:59  
 4 Q. Because the letter's addressed to 15:23:00  
 5 Emmeline Rocha-Sinha, correct? 15:23:01  
 6 A. Yes. 15:23:03  
 7 Q. So it wouldn't have gone to 15:23:06  
 8 Mr. Reilly as a function of how MBIA delivers 15:23:08  
 9 its mail, correct? 15:23:13  
 10 A. That's correct. 15:23:15  
 11 Q. So do you have any understanding 15:23:16  
 12 as to how it would have went to Mr. Reilly 15:23:17  
 13 given that you're the manager of the 15:23:20  
 14 Healthcare Group in the Surveillance 15:23:22  
 15 Department at this time? 15:23:25  
 16 A. Emmeline would have sent it either 15:23:29  
 17 down to my group or to the Waivers and 15:23:29  
 18 Consents Group; more likely my group. 15:23:34  
 19 Q. So it's more likely than not that 15:23:36  
 20 Mr. Heberton saw this document? 15:23:39  
 21 MR. WITTEN: Objection. 15:23:42  
 22 Q. You just testified "more likely my 15:23:44  
 23 group." 15:23:46  
 24 A. Right. 15:23:46  
 25 Q. And my understanding is that 15:23:48

Page 190

1 KARLEEN CARLSON STRAYER 15:43:18  
 2 wouldn't be concerned; if it was 60 percent, I 15:43:20  
 3 would be. 15:43:22  
 4 Q. If it were 60 percent and you were 15:43:24  
 5 concerned, would you take a look at the 15:43:26  
 6 reporting requirements? 15:43:31  
 7 A. No. No. 15:43:33  
 8 Q. I believe you testified that 15:43:41  
 9 shortly after the FY '96 audited financial 15:43:43  
 10 statements were received by MBIA, MBIA 15:43:49  
 11 downgraded the DVOG to its caution list? 15:43:53  
 12 A. Yes. 15:43:57  
 13 Q. What was MBIA's caution list at 15:43:59  
 14 this point in time? 15:44:02  
 15 A. That was the equivalent of a 15:44:03  
 16 six-rating in our rating scale, and credits 15:44:05  
 17 that went on to the caution list were under -- 15:44:10  
 18 were credits for which we had concern 15:44:15  
 19 sufficient that we began monitoring them more 15:44:17  
 20 frequently. 15:44:21  
 21 Q. More frequently than no later than 15:44:26  
 22 once a year? 15:44:27  
 23 A. Yes. 15:44:29  
 24 Q. Let me show you what's been 15:44:42  
 25 previously marked as Exhibit 1887. 15:44:44

Page 191

1 KARLEEN CARLSON STRAYER 15:44:44  
 2 Ms. Strayer, do you recognize 15:45:31  
 3 Exhibit 1887? 15:45:32  
 4 A. I recognize the form that we were 15:45:35  
 5 using at that time. 15:45:39  
 6 Q. This document is entitled "MBIA 15:45:41  
 7 Insured Portfolio Management Department, 15:45:44  
 8 Hospital Rating & Review Form." 15:45:47  
 9 A. Yes. 15:45:50  
 10 Q. I take it the Hospital Rating & 15:45:50  
 11 Review Form was something that MBIA used in 15:45:55  
 12 its usual course of business at this time? 15:46:00  
 13 A. Yes. 15:46:03  
 14 Q. And what was the purpose of this 15:46:04  
 15 hospital unit rating and review form? 15:46:06  
 16 A. This is simply the form that the 15:46:10  
 17 analysts filled out as they rated a credit, 15:46:13  
 18 and a copy went into our files. 15:46:17  
 19 Q. Is it your recollection that this 15:46:23  
 20 document dated February 28th, 1997, is the 15:46:26  
 21 first rating that was done by MBIA's 15:46:30  
 22 Surveillance Department after the June 1996 15:46:35  
 23 DVOG bond offering? 15:46:38  
 24 A. I believe so. 15:46:41  
 25 Q. If you turn with me to the first 15:47:36

Page 192

1 KARLEEN CARLSON STRAYER 15:47:36  
 2 page of the entity, 1887, the new rating, the 15:47:36  
 3 stand-alone rating is listed as 6B; do you see 15:47:36  
 4 that? 15:47:36  
 5 A. The rating, 6B? 15:47:36  
 6 Q. Yes. 15:47:36  
 7 A. Yes, I see it. 15:47:36  
 8 Q. I'm just crossing the column and 15:47:36  
 9 the row headings. 15:47:36  
 10 A. I see that. 15:47:36  
 11 Q. And the previous rating was 4B and 15:47:36  
 12 a date affixed there, 5/23/96? 15:47:36  
 13 A. Yes. 15:47:36  
 14 Q. So this is the downgrade 15:47:36  
 15 announcement that you were referring to 15:47:36  
 16 earlier? 15:47:36  
 17 A. This is the downgrade, this is the 15:47:36  
 18 form of the downgrade. In terms of the 15:47:36  
 19 announcement, that would have been a different 15:47:44  
 20 form, but this -- this is Dick's analysis of 15:47:44  
 21 the credit, so this was part of it. 15:47:47  
 22 Q. So this document reflects the fact 15:47:49  
 23 that MBIA's Surveillance Department is 15:47:53  
 24 lowering its internal rating on this credit? 15:47:56  
 25 A. Yes. 15:47:59

Page 193

1 KARLEEN CARLSON STRAYER 15:47:59  
 2 Q. Do you see the row "To: File" and 15:48:00  
 3 then there's a file listed after that? On the 15:48:04  
 4 top left-hand corner of the first page. 15:48:08  
 5 A. Oh, yes, um-hum. 15:48:11  
 6 Q. Do you have an understanding as to 15:48:13  
 7 which file this document was directed? 15:48:15  
 8 A. It's our -- it was our 15:48:19  
 9 surveillance files. 15:48:21  
 10 Q. Who had access to this document at 15:48:22  
 11 this point in time, if you know? 15:48:26  
 12 A. Probably Dick and myself. Like I 15:48:30  
 13 said, there was a different document that was 15:48:33  
 14 disseminated throughout the organization, so 15:48:35  
 15 it would have been a more concise analysis 15:48:37  
 16 than what would be in this document. 15:48:41  
 17 Q. The document that you just made 15:48:43  
 18 reference to, was that the Alert Report? 15:48:45  
 19 A. Yes. 15:48:48  
 20 Q. So the Alert Report that was 15:48:48  
 21 disseminated, when you say "throughout the 15:48:50  
 22 organization," all of MBIA or just the 15:48:52  
 23 Healthcare Group in the Surveillance 15:48:55  
 24 Department and on the new business side or 15:48:58  
 25 what do you mean by that? 15:48:59



Page 194

1 KARLEEN CARLSON STRAYER 15:48:59  
 2 A. It was a pretty wide distribution 15:49:01  
 3 list. Most of senior management would have 15:49:02  
 4 been included, the new business healthcare 15:49:06  
 5 analysts would have been included, 15:49:06  
 6 reinsurance, legal, the rest of the portfolio 15:49:10  
 7 management, it was a broad distribution list. 15:49:13  
 8 Q. This document, 1887, was for the 15:49:16  
 9 use of the insured portfolio management 15:49:19  
 10 department? 15:49:23  
 11 A. Yes. 15:49:23  
 12 Q. Who made the decision to downgrade 15:49:23  
 13 the DVOG from 4B to 6B? 15:49:26  
 14 A. Dick and I would have talked about 15:49:31  
 15 it and decided upon it, together. 15:49:33  
 16 Q. Ultimately, though, in this time 15:49:38  
 17 frame, February of 1997, was a downgrade such 15:49:40  
 18 as this within your discretion as manager in 15:49:47  
 19 the Healthcare Group and the Surveillance 15:49:51  
 20 Department? 15:49:51  
 21 A. Yes. 15:49:53  
 22 Q. Did you follow any guidelines in 15:49:53  
 23 deciding how far down to downgrade a credit? 15:49:55  
 24 A. We had very general guidelines in 15:50:05  
 25 terms of what the different rating categories 15:50:07

Page 195

1 KARLEEN CARLSON STRAYER 15:50:07  
 2 meant and I would have felt that, given those 15:50:10  
 3 parameters, that the characteristics of this 15:50:13  
 4 credit were appropriate for a 6 rating. 15:50:16  
 5 Q. And a 6 rating is equivalent to 15:50:22  
 6 the lowest investment grade rating? 15:50:26  
 7 A. That's right. 15:50:29  
 8 Q. And a B implies a stable trend? 15:50:30  
 9 A. Yes, it does. 15:50:34  
 10 Q. Will you turn with me to the 15:50:43  
 11 second page of Exhibit 1887. The paragraph 15:50:44  
 12 beginning, the full paragraph beginning 15:50:53  
 13 immediately under the subheading 15:50:55  
 14 "St. Christopher's Hospital for Children," 15:50:58  
 15 begins "This Obligated Group," do you see 15:51:00  
 16 that? 15:51:02  
 17 A. Yes. 15:51:03  
 18 Q. And that sentence states: "This 15:51:03  
 19 Obligated Group was brought together by AHERF 15:51:06  
 20 to create a strong integrated delivery system 15:51:07  
 21 in the Philadelphia area in order to gain a 15:51:10  
 22 competitive advantage in negotiating for 15:51:14  
 23 managed care contracts." 15:51:16  
 24 A. Yes, I see it. 15:51:18  
 25 Q. Then the last sentence of this 15:51:19

Page 196

1 KARLEEN CARLSON STRAYER 15:51:19  
 2 paragraph states: "Most of the members were 15:51:20  
 3 very lack lustre performers prior to their 15:51:22  
 4 affiliation with AHERF, with fairly weak 15:51:26  
 5 balance sheets." Do you see that statement? 15:51:29  
 6 A. Yes. 15:51:31  
 7 Q. Did you concur in the statements 15:51:36  
 8 that Mr. Heberton made in this document? 15:51:38  
 9 A. Well, Dick was an experienced 15:51:43  
 10 analyst and I would have read this and would 15:51:46  
 11 have not had any reason to, to doubt what he 15:51:49  
 12 was saying. 15:51:53  
 13 Q. So when you testified earlier 15:51:56  
 14 about the underlying financial condition of 15:51:58  
 15 entities that were collected into a 15:52:02  
 16 newly-formed obligated group, and you were 15:52:06  
 17 discussing generally how you would look to the 15:52:16  
 18 relative health of those entities, it seems 15:52:18  
 19 here that Mr. Heberton is clearly stating that 15:52:21  
 20 the DVOG entities were "rather lack lustre 15:52:24  
 21 performers prior to their affiliation with 15:52:29  
 22 AHERF with fairly weak balance sheets," 15:52:34  
 23 correct? 15:52:36  
 24 A. Yes. 15:52:36  
 25 Q. So this is an example of the type 15:52:37

Page 197

1 KARLEEN CARLSON STRAYER 15:52:37  
 2 of financial difficulties that you were 15:52:41  
 3 testifying about earlier? 15:52:42  
 4 A. Well, it doesn't necessarily say 15:52:50  
 5 "financial difficulties." It says "lack 15:52:51  
 6 lustre." 15:52:55  
 7 Q. In a case such as this where a 15:53:06  
 8 newly-formed obligated group was comprised of 15:53:09  
 9 members, most of which were rather lack lustre 15:53:13  
 10 performers with fairly weak balance sheets, 15:53:16  
 11 did you view it appropriate that the 15:53:19  
 12 Surveillance Department engage in additional 15:53:22  
 13 vigilance with respect to monitoring efforts? 15:53:26  
 14 A. Well, we did, based on the 15:53:31  
 15 financial statements that we had already seen 15:53:33  
 16 at this point in time; I don't know that it 15:53:35  
 17 had anything to do with the fact that the 15:53:37  
 18 obligated group was new or the history of 15:53:39  
 19 those entities had to do with the, the 15:53:42  
 20 financial performance as we saw in their 15:53:46  
 21 latest set of statements; so it was, it was 15:53:48  
 22 very real-time issue for us. 15:53:51  
 23 Q. But one of the goals of MBIA's 15:53:56  
 24 Surveillance Department is to intervene as 15:53:59  
 25 early as possible and try to correct problems 15:54:05

Page 198

1 KARLEEN CARLSON STRAYER 15:54:05  
 2 it foresees with a troubled credit, correct? 15:54:07  
 3 A. That's true. 15:54:09  
 4 MS. HACKETT: Objection, asked and 15:54:10  
 5 answered. 15:54:11  
 6 Q. So when a newly-formed obligated 15:54:14  
 7 group is comprised of entities that are lack 15:54:17  
 8 lustre performers, did you believe in this 15:54:20  
 9 time frame, as manager, that there should have 15:54:23  
 10 been additional vigilance from the point in 15:54:26  
 11 time that the credit fell within the 15:54:30  
 12 responsibilities of the Surveillance 15:54:35  
 13 Department? 15:54:36  
 14 MR. WITTEN: Objection. 15:54:37  
 15 MS. HACKETT: Objection; asked and 15:54:37  
 16 answered. 15:54:39  
 17 MR. KRUSKO: I don't think it has 15:54:40  
 18 because what I'm getting at is the DVOG bonds 15:54:41  
 19 are offered in June of 1996, correct? 15:54:45  
 20 A. That's right. 15:54:50  
 21 Q. Okay. At what point in time did 15:54:51  
 22 monitoring those bonds become the function of 15:54:54  
 23 the Surveillance Department? 15:54:57  
 24 A. Immediately after the bond -- 15:54:59  
 25 after the transaction closed. 15:55:00

Page 199

1 KARLEEN CARLSON STRAYER 15:55:00  
 2 Q. Okay. It's my understanding, 15:55:03  
 3 based on your testimony, that the Surveillance 15:55:06  
 4 Department didn't attach any particular extra 15:55:07  
 5 vigilance to monitoring that credit until 15:55:11  
 6 after the fiscal year 1996 audited financial 15:55:14  
 7 statements for DVOG came in in November of 15:55:16  
 8 1996? 15:55:20  
 9 A. That's true. 15:55:20  
 10 Q. Okay. And what I'm asking you is, 15:55:21  
 11 do you think that the Surveillance Department 15:55:24  
 12 should have attached additional vigilance to 15:55:26  
 13 its monitoring efforts beginning in June 1996, 15:55:29  
 14 immediately after the DVOG bonds were offered? 15:55:35  
 15 MS. HACKETT: And I believe that 15:55:38  
 16 has been asked and answered and I object, but 15:55:39  
 17 you can answer. 15:55:40  
 18 A. When, when MBIA underwrites 15:55:43  
 19 credits, they undertake a very extensive due 15:55:46  
 20 diligence process and there had been an 15:55:48  
 21 extremely extensive due diligence process done 15:55:50  
 22 in May to, you know, to prepare for the vote 15:55:52  
 23 that was taken, that represented the decision 15:55:57  
 24 to ensure the DVOG bonds; so, as manager of 15:56:01  
 25 the Surveillance Group, when I -- despite the 15:56:05

Page 200

1 KARLEEN CARLSON STRAYER 15:56:05  
 2 fact that a transaction had just closed with a 15:56:09  
 3 new obligated group, I would have been under 15:56:11  
 4 the impression, accurately, it appears, that 15:56:14  
 5 there was an extensive analysis made in May of 15:56:16  
 6 1996. 15:56:22  
 7 By June, July, August 1996, there, 15:56:24  
 8 frankly, was nothing for us to look at in 15:56:27  
 9 addition to what our new business analyst had 15:56:29  
 10 reviewed; so there was very little we could do 15:56:32  
 11 until we got additional financial information. 15:56:35  
 12 We also would have been under the 15:56:39  
 13 assumption that, you know, given the 4B rating 15:56:41  
 14 on the transaction, that there was no 15:56:45  
 15 impending crisis of any sort; so, the fact 15:56:48  
 16 that we, as soon as we got the financial 15:56:51  
 17 statements, we quickly looked at them and made 15:57:01  
 18 the decision to downgrade was, I think, a, a 15:57:01  
 19 great example of how proactive we were on this 15:57:01  
 20 particular credit. 15:57:04  
 21 This was a very unusual time frame 15:57:07  
 22 or type of occurrence within our organization. 15:57:10  
 23 Q. I'm sorry, I'm not following what 15:57:18  
 24 you meant by "this was a very unusual time 15:57:20  
 25 frame or type of occurrence within our 15:57:23

Page 201

1 KARLEEN CARLSON STRAYER 15:57:23  
 2 organization." 15:57:24  
 3 A. Because we -- our mandate for 15:57:25  
 4 healthy credit was to review those credits at 15:57:31  
 5 least once a year. If the new business 15:57:34  
 6 analyst had done a very extensive review in 15:57:36  
 7 May 1996, by our own, you know, surveillance 15:57:38  
 8 process, we wouldn't necessarily have had to 15:57:42  
 9 look at that credit again until May of 1997. 15:57:46  
 10 It's -- it seems obvious to me 15:57:49  
 11 that the reason we looked at it prior to May 15:57:52  
 12 1997 was the financial statements came out, 15:57:55  
 13 and because the audits came out we looked at 15:57:58  
 14 them on a, on a pretty quick basis and noticed 15:58:00  
 15 the large transfers, which was why Dick 15:58:06  
 16 brought that to my attention. 15:58:10  
 17 Q. Okay. 15:58:11  
 18 A. It is unusual that a credit 15:58:12  
 19 immediately after the underwriting would show 15:58:14  
 20 that level of, you know, of problem, a \$70 15:58:16  
 21 million transfer, basically, that, that's very 15:58:22  
 22 unusual. 15:58:26  
 23 Q. Well, isn't that all the more 15:58:26  
 24 reason to engage in additional vigilance? 15:58:27  
 25 A. Absolutely. 15:58:30

51 (Pages 198 to 201)

Page 202

1 KARLEEN CARLSON STRAYER 15:58:30  
 2 Q. Okay. 15:58:31  
 3 A. And we did. 15:58:31  
 4 Q. Okay. 15:58:32  
 5 When you say that "MBIA engaged in 15:58:35  
 6 extensive due diligence efforts," did you 15:58:38  
 7 participate in any due diligence efforts with 15:58:40  
 8 respect to the DVOG entities? 15:58:42  
 9 A. You mean prior to the -- 15:58:44  
 10 Q. Prior to the bond offering. 15:58:46  
 11 A. No, I did not. 15:58:48  
 12 Q. And when you say "there was 15:58:49  
 13 nothing to look at after the DVOG bonds were 15:58:50  
 14 offered in June 1996," did MBIA request 15:58:54  
 15 unaudited financial statements on a monthly 15:59:00  
 16 basis going forward after June 1996? 15:59:03  
 17 A. No, we did not. 15:59:06  
 18 Q. Are you aware of anything that 15:59:07  
 19 would have prevented MBIA from making such a 15:59:09  
 20 request? 15:59:11  
 21 A. That would have prevented us from 15:59:16  
 22 making that request? 15:59:17  
 23 Q. Yes. I'm -- 15:59:19  
 24 A. No, we could have made that 15:59:21  
 25 request, I'm sure. 15:59:22

Page 203

1 KARLEEN CARLSON STRAYER 15:59:22  
 2 Q. Okay. 15:59:23  
 3 A. The obligated group would have had 15:59:23  
 4 no obligation to provide them to us but we 15:59:25  
 5 could have asked for them, yes. 15:59:28  
 6 Q. What you described with respect to 15:59:34  
 7 the bonds being offered in June of the year 15:59:37  
 8 and the DVOG entities being in June of a 15:59:39  
 9 fiscal year, that's pure happenstance, 15:59:44  
 10 correct? 15:59:47  
 11 A. Yes. 15:59:47  
 12 Q. So essentially, it's really just a 15:59:48  
 13 coincidence that this timing was as you 15:59:52  
 14 described it, which is, I think, what your 15:59:55  
 15 testimony is? 15:59:58  
 16 A. Happenstance that the bonds were 16:00:01  
 17 issued in the same month as the fiscal 16:00:02  
 18 year-end? 16:00:05  
 19 Q. Yes. 16:00:06  
 20 A. Yes, although, I suspect that 16:00:07  
 21 there was some incentive on the part of the 16:00:09  
 22 investment bankers to get them issued before 16:00:14  
 23 June 30th; otherwise, there would have been 16:00:16  
 24 the desire to include the audits in the 16:00:21  
 25 official statement and that would have delayed 16:00:24

Page 204

1 KARLEEN CARLSON STRAYER 16:00:24  
 2 the bond issue by several months; so it is not 16:00:26  
 3 unusual that the bankers would have wanted to 16:00:29  
 4 see these done before the end of the fiscal 16:00:32  
 5 year. 16:00:34  
 6 Q. Okay. But if that occurred, you 16:00:35  
 7 wouldn't do anything about it, right? 16:00:41  
 8 MS. HACKETT: Object, if that 16:00:43  
 9 occurred. 16:00:44  
 10 MR. KRUSKO: What she just 16:00:44  
 11 described in terms of the involvement of 16:00:45  
 12 bankers in wanting to offer bonds before the 16:00:47  
 13 close of the fiscal year. 16:00:52  
 14 Q. If that occurred in this instance 16:00:53  
 15 with respect to DVOG -- 16:00:55  
 16 A. In this instance, you're correct, 16:00:57  
 17 I, I am not aware of that conversation 16:00:58  
 18 actually occurring. 16:01:01  
 19 Q. Okay. And in fact, you're not 16:01:02  
 20 aware that that actually happened in this 16:01:04  
 21 instance? 16:01:06  
 22 A. I'm not aware. Just from my 16:01:07  
 23 experience doing new business transactions, 16:01:08  
 24 I've heard that. 16:01:10  
 25 Q. Okay. If you would return with me 16:01:11

Page 205

1 KARLEEN CARLSON STRAYER 16:01:11  
 2 to the second page of Exhibit 1887, I'm on 16:01:17  
 3 page 029894. 16:01:25  
 4 A. Okay. 16:01:28  
 5 Q. Are you there? 16:01:31  
 6 A. Yes. 16:01:33  
 7 Q. In the second-to-last paragraph, 16:01:33  
 8 reference is made to \$17 million in transfers 16:01:38  
 9 in the first quarter of fiscal year 1997? 16:01:43  
 10 A. Yes. 16:01:46  
 11 Q. I take it Mr. Heberton learned of 16:01:48  
 12 those additional transfers through review of 16:01:53  
 13 interim unaudited financial statements? 16:01:57  
 14 MS. HACKETT: Objection, lack of 16:02:01  
 15 foundation. 16:02:02  
 16 A. I don't know. It would either 16:02:05  
 17 have been that or conversations with the 16:02:06  
 18 treasurer, I assume. 16:02:09  
 19 Q. Would you turn with me to the 16:02:47  
 20 third page of Exhibit 1887. If you would just 16:02:48  
 21 take a moment to review the first paragraph, I 16:03:06  
 22 would just like to ask you some general 16:03:09  
 23 questions about it. 16:03:12  
 24 A. Okay. 16:04:06  
 25 Q. This paragraph reflects, among 16:04:15

52 (Pages 202 to 205)

Page 254

1 KARLEEN CARLSON STRAYER 17:09:43  
 2 determining overhead charges within a complex 17:09:49  
 3 system there is some degree of judgment that's 17:09:52  
 4 called for and it's not necessarily a black 17:09:55  
 5 and white thing because it's one entity 17:09:58  
 6 basically charging another. 17:10:00  
 7 And I think what Mr. McConnell is 17:10:04  
 8 suggesting here is that one way to move funds 17:10:06  
 9 around is to adjust the level of overhead 17:10:09  
 10 charges. 17:10:16  
 11 Q. And provided there was a rational 17:10:17  
 12 basis for doing so, Mr. McConnell had the 17:10:21  
 13 ability to do that? 17:10:25  
 14 A. I, I can't -- I don't know what 17:10:29  
 15 Mr. McConnell had the ability to do; I assume 17:10:32  
 16 he did, but. 17:10:36  
 17 Q. When Mr. Reilly and Mr. Heberton 17:10:39  
 18 say that Mr. McConnell's disregard for the 17:10:41  
 19 integrity of the individual Obligated Group's 17:10:46  
 20 financial statements was disconcerting, does 17:10:49  
 21 that reflect the fact that just as money can 17:10:51  
 22 be moved around the AHERF system to support 17:10:54  
 23 the DVOG, so, too, can money be moved out of 17:10:55  
 24 DVOG to support other obligated group's or 17:11:01  
 25 entities within the system? 17:11:03

Page 255

1 KARLEEN CARLSON STRAYER 17:11:03  
 2 A. That was like part of it. 17:11:05  
 3 Q. And what was the other cause of or 17:11:08  
 4 the other reason, rather, why Mr. Reilly and 17:11:10  
 5 Mr. Heberton found these statements 17:11:14  
 6 disconcerting, to the extent you know? 17:11:17  
 7 A. Well, it was, in part, likely 17:11:21  
 8 because we also insured AGH, so presuming that 17:11:23  
 9 some of this cash was coming from AGH, it was, 17:11:27  
 10 in fact, harming our other obligated group. 17:11:30  
 11 And also, I think, just the 17:11:32  
 12 fundamental premise that existed at that time; 17:11:36  
 13 that the obligated group is a separate and 17:11:39  
 14 discrete credit entity should be treated as 17:11:42  
 15 such, and not necessarily have large cash 17:11:44  
 16 transfers going in and out of it. 17:11:48  
 17 Q. So these statements imply a lot of 17:11:51  
 18 activity, I take it, that would have an impact 17:11:57  
 19 on MBIA because, as you've described, there 17:11:59  
 20 could be the robbing Peter to pay Paul 17:12:02  
 21 scenario, whereby money was taken from AGH on 17:12:05  
 22 transfers to DVOG or money it was transferred 17:12:08  
 23 from DVOG to AGH, correct; is that a correct 17:12:12  
 24 scenario? 17:12:17  
 25 MS. HACKETT: Objection, there are 17:12:19

Page 256

1 KARLEEN CARLSON STRAYER 17:12:19  
 2 four scenarios in there. Do you want to break 17:12:21  
 3 that down a little more? 17:12:22  
 4 MR. KRUSKO: Fair enough. 17:12:23  
 5 Q. One scenario that I believe is 17:12:24  
 6 covered by your statement is the statement 17:12:26  
 7 where Mr. McConnell has transferred money from 17:12:28  
 8 AGH to the DVOG? 17:12:31  
 9 A. Yes. I'm just hesitating because 17:12:33  
 10 I know that -- I believe some of the cash 17:12:37  
 11 transfers didn't originate from AGH but 17:12:40  
 12 perhaps other Eastern or Western entities, so 17:12:43  
 13 I'm just saying, using that as an example but 17:12:47  
 14 I think some money did come out of AGH. 17:12:51  
 15 Q. Conversely, Mr. McConnell could 17:12:57  
 16 have taken money from the DVOG and transferred 17:13:01  
 17 it to AGH or the AGH Obligated Group which may 17:13:04  
 18 have included other entities in the Western 17:13:11  
 19 part of Pennsylvania? 17:13:13  
 20 A. Yes. 17:13:14  
 21 Q. And there's another scenario, 17:13:14  
 22 which is Mr. McConnell can take money from 17:13:17  
 23 either the AGH or the AGH Obligated Group or 17:13:21  
 24 DVOG, so it leaves the obligated group's for 17:13:25  
 25 which MBIA had provided bond insurance? 17:13:29

Page 257

1 KARLEEN CARLSON STRAYER 17:13:29  
 2 A. Yes. 17:13:32  
 3 Q. All of those scenarios have 17:13:35  
 4 financial impacts for MBIA, because MBIA had 17:13:38  
 5 provided bond insurance for the DVOG bonds and 17:13:42  
 6 for bonds issued on behalf of AGH, correct? 17:13:45  
 7 A. Well, it would have a financial 17:13:49  
 8 impact for the entity that has the cash 17:13:50  
 9 flowing in and out. It wouldn't necessarily 17:13:55  
 10 have impact on MBIA unless, of course, we had 17:13:57  
 11 a bankruptcy or inability to make debt 17:14:00  
 12 service. 17:14:03  
 13 Q. Or a bond covenant? 17:14:04  
 14 A. Or a bond covenant default, yes. 17:14:06  
 15 Q. At this point in time, the DVOG 17:14:09  
 16 was experiencing financial difficulties? 17:14:11  
 17 A. Yes. 17:14:14  
 18 Q. As reflected by the Alert Report 17:14:15  
 19 that we just saw? 17:14:18  
 20 A. Yes. 17:14:21  
 21 Q. What, if any, steps did you take 17:14:24  
 22 to get to the bottom of what's being described 17:14:26  
 23 here? 17:14:29  
 24 A. We were, during this time period, 17:14:31  
 25 having very frequent conversations with Dave 17:14:33



<p style="text-align: right;">Page 258</p> <p>1 KARLEEN CARLSON STRAYER 17:14:33</p> <p>2 McConnell and Mike Martin and, I believe, 17:14:36</p> <p>3 other people at DVOG, primarily David, 17:14:40</p> <p>4 Mr. McConnell and Mr. Martin. 17:14:46</p> <p>5 We were asking for reports and, 17:14:51</p> <p>6 again, I cannot specify the exact time frame 17:14:53</p> <p>7 we were doing these things but we were having 17:14:57</p> <p>8 more frequent meetings with them. 17:14:58</p> <p>9 This was a very -- this was 17:15:09</p> <p>10 becoming a very active remediation at this 17:15:09</p> <p>11 point in time; there was a lot of activity 17:15:09</p> <p>12 going on with this and a lot of many, many 17:15:09</p> <p>13 conversations occurring. 17:15:11</p> <p>14 Q. These statements that are 17:15:13</p> <p>15 contained in this passage, the last paragraph 17:15:14</p> <p>16 on the first page of Exhibit 2194, have 17:15:17</p> <p>17 serious ramifications for MBIA, correct? 17:15:21</p> <p>18 MR. WITTEN: Objection. 17:15:25</p> <p>19 A. Could you clarify your question? 17:15:31</p> <p>20 Q. Okay. This transferring around of 17:15:33</p> <p>21 funds from one obligated group to another 17:15:41</p> <p>22 that's described here could have serious 17:15:43</p> <p>23 ramifications for MBIA, given that MBIA, 17:15:46</p> <p>24 again, had insured DVOG and AGH bonds? 17:15:50</p> <p>25 A. Well, you know, just given what 17:15:55</p>	<p style="text-align: right;">Page 260</p> <p>1 KARLEEN CARLSON STRAYER 17:16:57</p> <p>2 You can answer. 17:16:59</p> <p>3 A. It's true, but those were -- I'm 17:17:02</p> <p>4 sure that DVOG people would have called those 17:17:05</p> <p>5 "investments," in that they -- you know, it 17:17:08</p> <p>6 wasn't just cash being transferred out for no 17:17:11</p> <p>7 reason, it was cash they were transferring 17:17:14</p> <p>8 out, assuming that they would increase their 17:17:17</p> <p>9 volume by doing so. So, you know, the 17:17:19</p> <p>10 strategy ended up not being effective but that 17:17:22</p> <p>11 was their plan and had their plan worked we 17:17:25</p> <p>12 might not have been that troubled by those 17:17:28</p> <p>13 transfers. 17:17:30</p> <p>14 Q. My understanding is that as 17:17:34</p> <p>15 manager of the Healthcare Group in the 17:17:37</p> <p>16 Surveillance Department, when you were 17:17:41</p> <p>17 confronted with the remediation, you first 17:17:41</p> <p>18 started your responsibility to have 17:17:47</p> <p>19 discussions with the CFO, correct? 17:17:48</p> <p>20 A. We frequently did. 17:17:52</p> <p>21 Q. I'm talking about yourself, 17:17:53</p> <p>22 though, as manager? 17:17:56</p> <p>23 A. As manager? 17:17:57</p> <p>24 Q. Yes. 17:17:58</p> <p>25 A. It would depend on the extent of 17:17:58</p>
<p style="text-align: right;">Page 259</p> <p>1 KARLEEN CARLSON STRAYER 17:15:55</p> <p>2 Dick and Chip are describing here, it's clear 17:15:58</p> <p>3 they see this as sort of a double-edge sword 17:16:01</p> <p>4 in that we did view at that time AGH as a 17:16:06</p> <p>5 strong entity; and, so, the fact that they 17:16:09</p> <p>6 were moving cash out of the West to support 17:16:12</p> <p>7 the East, while we did not like the fact that 17:16:15</p> <p>8 they were not -- they were sort of 17:16:18</p> <p>9 disregarding the integrity of the obligated 17:16:19</p> <p>10 group, if the cash transfers were going that 17:16:23</p> <p>11 way, it did benefit us. So there was, there 17:16:24</p> <p>12 was a positive to what they were doing. 17:16:28</p> <p>13 Now, the risk, as you mentioned 17:16:31</p> <p>14 earlier, is that the cash could go back out 17:16:33</p> <p>15 and, in fact, that did eventually happen. 17:16:35</p> <p>16 But, at this point in time, it appears that 17:16:37</p> <p>17 they are supporting the East with the West and 17:16:41</p> <p>18 that, that did give us a little bit of 17:16:44</p> <p>19 comfort, I think. 17:16:46</p> <p>20 Q. Right. But additional money was 17:16:48</p> <p>21 being taken out of DVOG to fund the physician 17:16:49</p> <p>22 practice acquisition strategy that was being 17:16:52</p> <p>23 pursued by AHERF at this point in time? 17:16:54</p> <p>24 MS. HACKETT: Objection, asked and 17:16:56</p> <p>25 answered. 17:16:57</p>	<p style="text-align: right;">Page 261</p> <p>1 KARLEEN CARLSON STRAYER 17:17:58</p> <p>2 the people and the majority of the analyst 17:18:01</p> <p>3 that was assigned to that particular credit. 17:18:03</p> <p>4 Q. Let me ask you this more 17:18:05</p> <p>5 generally: To the extent you received answers 17:18:06</p> <p>6 from the CFO that you weren't happy with, was 17:18:08</p> <p>7 it your practice, as manager of the Healthcare 17:18:11</p> <p>8 Group in the Surveillance Department, to then 17:18:14</p> <p>9 take the matter up with the entity's CEO? 17:18:15</p> <p>10 A. Yes; although, I would -- it 17:18:22</p> <p>11 wasn't necessarily that we weren't happy with 17:18:25</p> <p>12 the answers. We, you know, as -- as we became 17:18:27</p> <p>13 aware of more financial difficulty, it would 17:18:35</p> <p>14 be neutral for us to sort of increase the 17:18:38</p> <p>15 seniority of the individuals we were talking 17:18:40</p> <p>16 with; so a next step would have been the CEO 17:18:42</p> <p>17 after the CFO. 17:18:46</p> <p>18 Q. Okay. After you received this 17:18:47</p> <p>19 Call Memorandum, Exhibit 2194, did you attempt 17:18:50</p> <p>20 to contact Sherif Abdelhak, the CEO of AHERF? 17:18:54</p> <p>21 A. I believe that after this point we 17:19:01</p> <p>22 did try to organize a meeting with him and 17:19:04</p> <p>23 some others, and I cannot be specific on the 17:19:09</p> <p>24 time frame, I'm not sure, but we did have a 17:19:12</p> <p>25 meeting planned. 17:19:15</p>

Page 262

1 KARLEEN CARLSON STRAYER 17:19:15  
 2 We flew out to -- first we met in 17:19:16  
 3 Philadelphia with some people and then we flew 17:19:20  
 4 out in Pittsburgh, and I believe it was in 17:19:23  
 5 Pittsburgh we were supposed to meet with 17:19:25  
 6 Sherif Abdelhak, and when we arrived we were 17:19:29  
 7 told that he had an emergency and could not 17:19:31  
 8 meet with us; so it was actually at a later 17:19:32  
 9 meeting that we ended up meeting him. 17:19:35  
 10 Q. When was that first meeting 17:19:38  
 11 scheduled for, if you know? 17:19:41  
 12 A. I don't recall exactly. There's 17:19:42  
 13 probably a memo about it somewhere. 17:19:43  
 14 Q. Do you recall the year? 17:19:46  
 15 A. The first meeting? 17:19:47  
 16 Q. No. Just to be specific -- the 17:19:48  
 17 first meeting in terms of the one where you 17:19:51  
 18 flew out and Mr. Abdelhak said that he wasn't 17:19:53  
 19 available and you weren't able to meet with 17:19:57  
 20 him, was that '97 or '98? 17:19:59  
 21 A. I think '97. 17:20:02  
 22 Q. But you're not certain? 17:20:10  
 23 A. I'm not certain. 17:20:11  
 24 Q. Do you recall how much time 17:20:13  
 25 elapsed between your first attempt to meet 17:20:14

Page 263

1 KARLEEN CARLSON STRAYER 17:20:14  
 2 with Mr. Abdelhak and the second time? 17:20:16  
 3 A. I'm not sure how much time there 17:20:21  
 4 was. But I should point out during this time 17:20:23  
 5 we're having a lot of conversations with David 17:20:28  
 6 McConnell and Mike Martin, and they are 17:20:38  
 7 providing us with lots and lots of 17:20:38  
 8 information, we're getting a lot of 17:20:38  
 9 information from them. 17:20:40  
 10 Q. Right. 17:20:41  
 11 A. So I think our purpose in meeting 17:20:42  
 12 with Sherif was more to make a point than to 17:20:45  
 13 ask questions. We weren't trying to get 17:20:49  
 14 necessarily more information from him; we were 17:20:52  
 15 trying to convey a message to him. 17:20:54  
 16 Q. In terms of lots and lots of 17:20:56  
 17 information, I take it you mean lots and lots 17:20:58  
 18 of unaudited financial information? 17:21:01  
 19 A. And a lot of phone calls. So we 17:21:05  
 20 would, we were doing a lot of phone calls with 17:21:07  
 21 the financial folks at AHERF to understand the 17:21:09  
 22 numbers that we had and what was going on. 17:21:13  
 23 Q. So possibly some projections? 17:21:15  
 24 A. Possibly. 17:21:19  
 25 Q. But no additional audited 17:21:21

Page 264

1 KARLEEN CARLSON STRAYER 17:21:21  
 2 financial information, because again, the DVOG 17:21:23  
 3 was on a June 30 fiscal year? 17:21:29  
 4 A. Well, we eventually got the 1997 17:21:32  
 5 financials, audited financial statements, but, 17:21:36  
 6 yes, we only got the audits as they came due. 17:21:41  
 7 Q. So in this time frame, April 1997, 17:21:43  
 8 the lots and lots of information you're 17:21:46  
 9 receiving is unaudited financial information, 17:21:49  
 10 amongst other information? 17:21:51  
 11 A. Yes. 17:21:54  
 12 Q. Earlier you testified that with 17:21:56  
 13 respect to Sacred Heart Hospital you 17:21:58  
 14 personally met on at least three occasions 17:21:59  
 15 with the Sacred Heart Hospital Executive 17:22:02  
 16 Committee, correct? 17:22:06  
 17 A. Yes. 17:22:07  
 18 Q. And the Executive Committee was 17:22:08  
 19 comprised of trustees for Sacred Heart 17:22:09  
 20 Hospital? 17:22:13  
 21 A. Yes. 17:22:14  
 22 Q. On receiving this memorandum, did 17:22:15  
 23 you make any attempt to meet with the AHERF 17:22:17  
 24 board to discuss this surreptitious moving of 17:22:21  
 25 funds as described here? 17:22:25

Page 265

1 KARLEEN CARLSON STRAYER 17:22:25  
 2 A. I don't believe so. 17:22:27  
 3 Q. Why not? 17:22:27  
 4 A. Because, for several reasons: 17:22:32  
 5 There -- I believe we had the view that the 17:22:36  
 6 problem was still controllable because some of 17:22:39  
 7 the, some of the things, for example, in the 17:22:44  
 8 prior memo, referred to the fact that the 17:22:46  
 9 physician -- the payments to the physicians 17:22:49  
 10 were yielding increased volume, we saw that as 17:22:51  
 11 a good sign. 17:22:55  
 12 I believe in this memo it says 17:22:56  
 13 that the physician acquisition strategy had 17:22:57  
 14 stopped. And so, we felt that some of the 17:23:01  
 15 things -- some of the negative financial 17:23:05  
 16 affects of their reorganization and physician 17:23:08  
 17 acquisition strategy were at an end and there 17:23:12  
 18 would, perhaps, be some stability in the 17:23:17  
 19 system. 17:23:20  
 20 We were, in some sense, viewing 17:23:21  
 21 these cash transfers as a mitigant to us on 17:23:24  
 22 the DVOG side; so we wouldn't, we wouldn't at 17:23:27  
 23 this point have gone to the board to complain 17:23:31  
 24 about this because at this point the movement 17:23:34  
 25 of the funds was actually helping us; so we 17:23:36

Page 266

1 KARLEEN CARLSON STRAYER 17:23:36  
2 wouldn't go to the board to try to stop that 17:23:41  
3 from happening. 17:23:42  
4 Q. Was there any guarantee at this 17:23:43  
5 point in time that the movement of funds 17:23:45  
6 described in Exhibit 2194 was going to 17:23:47  
7 continue to help the DVOG? 17:23:50  
8 A. Well, there was no guarantee. 17:24:00  
9 There was a representation that, by the CFO 17:24:02  
10 here, that he moved around funds as necessary, 17:24:06  
11 but there were certainly no guarantee that he 17:24:09  
12 was going to do that. 17:24:13  
13 Q. Did you attempt to get such a 17:24:14  
14 guarantee from Mr. McConnell or anyone else at 17:24:16  
15 AHERF? 17:24:21  
16 A. I don't know that, other than an 17:24:25  
17 amendment to the bond documents, whether any 17:24:29  
18 sort of guarantee would have been, would have 17:24:33  
19 been something we could count on. 17:24:41  
20 I mean, we would have needed a 17:24:43  
21 contractual obligation from them, so we would 17:24:45  
22 have had to have them amend the bond documents 17:24:47  
23 in some fashion, I assume, and no, that wasn't 17:24:50  
24 anything we asked for specifically. 17:24:54  
25 Q. Did you or did anyone on your 17:24:57

Page 267

1 KARLEEN CARLSON STRAYER 17:24:57  
2 staff undertake any investigation to determine 17:25:01  
3 whether the bond documents could be amended in 17:25:02  
4 the way you're describing? 17:25:05  
5 A. No, we didn't. 17:25:08  
6 Q. Why not? 17:25:09  
7 A. Because I think -- a lot depends 17:25:13  
8 on what time period you're talking about. 17:25:16  
9 Q. I'm talking about in the time 17:25:18  
10 frame of this memorandum, April 30th, 1997. 17:25:19  
11 A. April. Well, I think it's 17:25:25  
12 important to remember that our view at this 17:25:29  
13 time, while we were very concerned with the 17:25:30  
14 cash position, we -- our understanding was 17:25:33  
15 that DVOG, DVOG in and of itself, entities 17:25:36  
16 operating within that system, were profitable. 17:25:44  
17 And that the problem was, the severity of the 17:25:46  
18 problem was really caused by the physician 17:25:49  
19 practice plan. And we viewed that as something 17:25:52  
20 that could be controlled, to some extent. 17:25:54  
21 So it was -- you know, we did not 17:26:00  
22 view this as the operating entities within 17:26:01  
23 DVOG were bleeding and needed the West 17:26:03  
24 support; we viewed this as a specific problem 17:26:06  
25 caused by the physician acquisitions. 17:26:09

Page 268

1 KARLEEN CARLSON STRAYER 17:26:09  
2 Q. And again, you personally believed 17:26:12  
3 that this was a controllable problem? 17:26:14  
4 A. We felt, at least as, you know, at 17:26:17  
5 April 1997, that this was a situation that 17:26:22  
6 AHERF management team could correct, yes. 17:26:27  
7 Q. I'm specifically asking you 17:26:32  
8 whether you personally thought that MBIA could 17:26:33  
9 "control" this problem? 17:26:39  
10 A. MBIA could control this moment. 17:26:41  
11 Q. Yes, you several times used the 17:26:51  
12 phrase "controllable problem." 17:26:51  
13 A. No, MBIA had no control rights 17:26:51  
14 whatsoever. We had no breach of a covenant. 17:26:51  
15 We had -- you know, we never have the ability 17:26:53  
16 to control management. 17:26:54  
17 Our rights and remedies always 17:26:55  
18 come through the bond documents, through the 17:26:57  
19 covenants and nothing had been breached. 17:26:59  
20 Q. So this -- 17:27:01  
21 A. We had no rights. 17:27:02  
22 Q. So the surreptitious moving of 17:27:03  
23 funds described here was a controllable 17:27:08  
24 problem, "controllable" meaning on the part of 17:27:10  
25 AHERF, AHERF could control this? 17:27:13

Page 269

1 KARLEEN CARLSON STRAYER 17:27:13  
2 MR. WITTEN: Objection. 17:27:15  
3 A. Well, when I say "controllable 17:27:19  
4 problem," I meant something broader than just 17:27:21  
5 moving the funds around. To us, moving the 17:27:22  
6 funds, in some ways, wasn't necessarily a 17:27:26  
7 problem; it was relieving DVOG, to some 17:27:28  
8 extent. 17:27:31  
9 The problem to which I was 17:27:32  
10 referring was the fact that they had these 17:27:34  
11 major transfers going out to fund the 17:27:35  
12 physician losses; so I guess it depends on 17:27:38  
13 whether the cash transfers, if you're 17:27:41  
14 referring to the cash transfers coming from 17:27:43  
15 the West or if you're referring to the cash 17:27:45  
16 transfers going out for the physician 17:27:48  
17 acquisitions, and that we did view as a 17:27:49  
18 problem and we did view that as a problem that 17:27:52  
19 they could control. I don't know if I'm being 17:27:54  
20 clear, but that was my intention. 17:27:58  
21 Q. Final question: But MBIA could 17:28:09  
22 only attempt to influence AHERF physician 17:28:11  
23 practice acquisition strategy, it didn't 17:28:16  
24 control it? 17:28:18  
25 A. Right. 17:28:19

Page 270

1 KARLEEN CARLSON STRAYER 17:28:19  
 2 MR. KRUSKO: Let's go off the 17:28:21  
 3 record. 17:28:21  
 4 THE VIDEO OPERATOR: Going off the 17:28:25  
 5 record at 5:28 p.m. This is end the tape 17:28:25  
 6 number three. 17:28:30  
 7 (Time Noted: 5:28 p.m.) 17:28:35  
 8  
 9

10 KARLEEN CARLSON STRAYER

11  
 12 Subscribed and sworn to before me  
 13 this \_\_\_\_ day of \_\_\_\_\_, 2003.  
 14  
 15 \_\_\_\_\_  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

Page 272

1 KARLEEN CARLSON STRAYER  
 2 C E R T I F I C A T E  
 3 STATE OF NEW YORK )  
 4 : ss.  
 5 COUNTY OF NEW YORK )  
 6

7 I, PHYLISS SALIMBENE, a Registered  
 8 Professional Reporter and Notary Public within  
 9 and for the State of New York, do hereby  
 10 certify:

11 That KARLEEN CARLSON STRAYER, the  
 12 witness whose deposition is hereinbefore set  
 13 forth, was duly sworn by me and that such  
 14 deposition is a true record of the testimony  
 15 given by the witness.

16 I further certify that I am not  
 17 related to any of the parties to this action  
 18 by blood or marriage, and that I am in no way  
 19 interested in the outcome of this matter.

20 IN WITNESS WHEREOF, I have  
 21 hereunto set my hand this \_\_\_\_ day of  
 22 \_\_\_\_\_, 2003.  
 23  
 24  
 25

PHYLISS SALIMBENE, RPR

Page 271

1 KARLEEN CARLSON STRAYER  
 2 STATE OF NEW YORK ) Pg\_\_of\_\_Pgs  
 3 ss:  
 4 COUNTY OF NEW YORK )

5 I wish to make the following changes,  
 6 for the following reasons:  
 7 PAGE LINE

8 \_\_\_\_ CHANGE: \_\_\_\_\_  
 9 REASON: \_\_\_\_\_  
 10 \_\_\_\_ CHANGE: \_\_\_\_\_  
 11 REASON: \_\_\_\_\_  
 12 \_\_\_\_ CHANGE: \_\_\_\_\_  
 13 REASON: \_\_\_\_\_  
 14 \_\_\_\_ CHANGE: \_\_\_\_\_  
 15 REASON: \_\_\_\_\_  
 16 \_\_\_\_ CHANGE: \_\_\_\_\_  
 17 REASON: \_\_\_\_\_  
 18 \_\_\_\_ CHANGE: \_\_\_\_\_  
 19 REASON: \_\_\_\_\_  
 20 \_\_\_\_ CHANGE: \_\_\_\_\_  
 21 REASON: \_\_\_\_\_  
 22 \_\_\_\_ CHANGE: \_\_\_\_\_  
 23 REASON: \_\_\_\_\_  
 24  
 25

Page 273

1 KARLEEN CARLSON STRAYER  
 2 E X H I B I T S  
 3 DESCRIPTION PAGE  
 4 (Deposition Exhibit 2191 for identification,  
 5 two-page document, production numbers MBIA  
 6 047948 to MBIA 047949.)..... 109:16  
 7 (Deposition Exhibit 2192 for identification,  
 8 copy of a transcript.)..... 173:12  
 9 (Deposition Exhibit 2193 for identification,  
 10 Alert Report, production numbers MBIA 029899.)  
 11 ..... 210:22  
 12 (Deposition Exhibit 2194 for identification,  
 13 Call Memorandum dated April 30, 1997,  
 14 production numbers MBIA 029900 through MBIA  
 15 029902.)..... 244:5  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

# EXHIBITS SHOWN THAT WERE PREVIOUSLY MARKED

EXHIBIT	PAGE
1884 .....	153:12
1885 .....	165:17
1887 .....	190:23



**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS, LLP,***

---

***KARLEEN CARLSON STRAYER  
October 9, 2003***

---

***LEGALINK MANHATTAN  
420 Lexington Avenue - Suite 2108  
New York, NY 10170  
PH: 212-557-7400 / FAX: 212-692-9171***

**STRAYER, KARLEEN CARLSON - Vol. II**



**LEGALINK®**

**A WORDWAVE COMPANY**

Page 303

1 KARLEEN CARLSON STRAYER  
 2 who all attended that meeting.  
 3 Q. You're referring to David Barnes  
 4 and Ira Gumberg?  
 5 A. Yes.  
 6 Q. What did Mr. Barnes tell you at  
 7 this meeting about the Mellon repayment?  
 8 A. I can't recall. It was -- I can't  
 9 recall who finally told us that the payment  
 10 had been made; we did eventually discover the  
 11 payment had been made but we did not -- I  
 12 mean, this was happening over a matter of a  
 13 course of days, not weeks or months, so, so we  
 14 kept asking different people because some  
 15 people were saying "no" and, of course, we  
 16 knew it was imminent, so we were trying to  
 17 understand what was going on, but I can't  
 18 recall specifically what the trustees  
 19 indicated to us.  
 20 Q. Just to be clear, I take it you  
 21 don't recall anything that Mr. Gumberg told  
 22 you at this meeting?  
 23 A. I recall that the trustees, and I  
 24 don't know if specifically Mr. Gumberg, but I  
 25 recall that they were in some sense relieved

Page 304

1 KARLEEN CARLSON STRAYER  
 2 because there had been an employee reduction  
 3 in force not too long before that and they saw  
 4 that as a -- something that could help the  
 5 health, financial health of the organization;  
 6 they saw that as a positive, so that they  
 7 talked about that.  
 8 Q. But you don't remember any  
 9 comments that Mr. Gumberg may have made during  
 10 this meeting about the Mellon line of credit  
 11 repayment?  
 12 A. Not specific comments, no.  
 13 Q. When you say that "MBIA knew the  
 14 repayment was imminent," what's your basis for  
 15 your statement? And I should be clear, I  
 16 believe you testified that going into this  
 17 meeting MBIA knew that the payment was  
 18 imminent.  
 19 A. Yes. I don't recall how we knew  
 20 that.  
 21 Q. You just recall a feeling that  
 22 this was -- no, I'm just trying --  
 23 A. No, I think they had a default of  
 24 some sort or it was expiring that -- the bank  
 25 had some leverage, I believe; that's all we

Page 305

1 KARLEEN CARLSON STRAYER  
 2 knew at the time, that the bank did have some  
 3 leverage.  
 4 Q. Did you subsequently learn  
 5 anything about the payment?  
 6 A. We learned it had been repaid.  
 7 Q. Let me ask you this: Is it your  
 8 recollection that there were individuals who  
 9 served in this time frame both on the board of  
 10 Mellon Bank and on the AHERF board of  
 11 trustees?  
 12 A. Yes.  
 13 Q. Do you know one way or the other  
 14 whether any of those individuals exerted any  
 15 influence over the decision by AHERF to repay  
 16 the Mellon line of credit?  
 17 A. I don't know.  
 18 MR. KRUSKO: Can I suggest a coffee  
 19 break?  
 20 THE VIDEO OPERATOR: Going off --  
 21 MR. KRUSKO: Hearing no objection.  
 22 THE VIDEO OPERATOR: Going off the  
 23 record at 10:17.  
 24 (Recess taken.)  
 25 THE VIDEO OPERATOR: Returning to

Page 306

1 KARLEEN CARLSON STRAYER  
 2 the record at 10:21.  
 3 MR. KRUSKO: I would note for the  
 4 record that Exhibit 2194 appears to be  
 5 identical to Exhibit 1895.  
 6 (Deposition Exhibit 2195 for  
 7 identification, document, production numbers  
 8 MBIA 007744 through MBIA 007756.)  
 9 Q. Ms. Strayer, let me hand you what  
 10 has been marked as Exhibit 2195.  
 11 MR. KRUSKO: For the record, I  
 12 would note that Exhibit 2195 bears the Bates  
 13 numbers MBIA 007744 through MBIA 007756.  
 14 Q. Ms. Strayer, if I could ask you at  
 15 the outset, do you recognize this document?  
 16 A. Yes.  
 17 Q. What is this document?  
 18 A. It's a document that our group  
 19 would prepare on credits that were on the  
 20 caution list or weaker.  
 21 Q. I take it, then, Mr. Heberton  
 22 performed this analysis in the wake of the  
 23 DVOG entities being placed on the caution list  
 24 in the February 1997 time frame?  
 25 A. Yes, it looks like it.

Page 307

KARLEEN CARLSON STRAYER

Q. And this is a standard form that MBIA used at the time for performing this sort of analysis?

A. Yes.

Q. Did you review this analysis after Mr. Heberton had written it?

A. Yes.

Q. And did you approve of its contents before it was filed?

A. Well, we didn't -- I didn't necessarily have an approval process for a document like this. Dick was simply -- he was simply putting on paper what the conditions were in the legal documents and some other information; so, I reviewed it. I wouldn't necessarily have had to approve this kind of document.

Q. What happened, I just want to be clear on the process, what happened after Mr. Heberton wrote it and you reviewed it? I'm just trying to get a sense as to what to this file signifies.

A. He's sending it to the file but the purpose of the document is not necessarily

Page 309

KARLEEN CARLSON STRAYER

correct?

A. Yes.

Q. I'm sorry, waivers and control of remedies, as well.

He then writes: One problem is that the asset transfer test does not follow MBIA's standard conditions, and this has allowed ADVOG to transfer substantial levels of cash without breaking the covenant. The standard test is 10 percent of PP&E; in this case, equal to 42 million. The test in the MTI allows ADVOG to transfer 8 percent of all -- and "all" is underlined -- assets for about 76 million per year. Do you see that?

A. Yes.

Q. Do you have an understanding as to what Mr. Heberton meant by the "standard test is 10 percent of PP&E"?

A. Well, a very common test in our healthcare documents is 10 percent of PP&E, but it's also not totally uncommon to see a test based on total assets.

Q. Is the 10 percent of PP&E test -- withdrawn.

Page 308

KARLEEN CARLSON STRAYER

to paper the file but, rather, this was a document we could use during our remedial activities. It was a way to summarize some of the key points within the legal documents so that we could refer to this quickly as opposed to constantly going back to the bond documents.

Q. So is it fair to say that Exhibit 2195 was a reference tool that MBIA's Healthcare Group in the Surveillance Department used during the remediation process with respect to the DVOG?

A. Yes.

Q. Would you turn with me to page 007745, the second page of this document.

A. Okay.

Q. I take it this caption contains Mr. Heberton's overview of the applicable legal documents with respect to the DVOG offering?

A. Yes, he's summarizing them.

Q. Mr. Heberton at the outset notes that the documents appear in good shape and give MBIA reasonable control over consents,

Page 310

KARLEEN CARLSON STRAYER

Was the 10 percent of PP&E test MBIA's standard test for asset transfers in this time frame?

A. It was a, it was a common test. It wasn't -- there was no mandate that that was the test the analysts had to have, but it was, it was common in these documents, in these types of documents.

Q. Was it a standard test?

A. Define "standard." I'm just, I'm saying it's "common"; it wasn't unusual to have used that. He's using the word "standard." I doubt he put, he put a tremendous amount of thought into that.

It was simply something that we would frequently see in healthcare documents. 10 percent of PP&E was a fairly frequent test and I think that's what he means by "standard."

Q. Do you know how the eight percent of all assets test was incorporated into the master trust indenture for the DVOG bond offering, the circumstances surrounding that decision?

Page 311

1 KARLEEN CARLSON STRAYER  
 2 A. Oh, why it was eight percent  
 3 versus something else?  
 4 Q. Yes.  
 5 A. I don't know.  
 6 Q. Did you ever undertake any  
 7 investigation or direct anyone on your staff  
 8 to undertake an investigation as to why the  
 9 test was eight percent of all assets and not  
 10 10 percent of PP&E?  
 11 A. No.  
 12 Q. Why not?  
 13 A. Because having a test based on all  
 14 assets was not totally uncommon. It wasn't --  
 15 this would not have been the only time I had  
 16 ever seen a test based on total assets.  
 17 Also, as Dick points out, we just  
 18 had recently closed the transaction and at the  
 19 time the transaction closed we had a view of  
 20 this client as a very -- as a creditworthy  
 21 client, as a strong system, a strong  
 22 management team; so the fact that the  
 23 underwriter, the analyst who underwrote the  
 24 deal had chosen to give them a test that might  
 25 have been a little bit looser than we

Page 313

1 KARLEEN CARLSON STRAYER  
 2 statements?  
 3 A. I would assume so, since this  
 4 report is dated subsequent to our receipt of  
 5 those financial statements.  
 6 Q. And that would have been standard  
 7 practice for an analyst under your supervision  
 8 performing this sort of legal documents  
 9 overview in this time frame?  
 10 A. It would have been standard --  
 11 Dick, Dick is pointing out this particular  
 12 test in this set of documents, because this is  
 13 a -- an issue that AHERF is having in terms of  
 14 the cash transfers and it is a concern of  
 15 ours.  
 16 Each, each remedial initiative we  
 17 undertook was very specific to the issues that  
 18 that particular credit was having; so, in a  
 19 different client, we might have written  
 20 something totally different.  
 21 He is simply pointing this out for  
 22 AHERF because cash transfers was of particular  
 23 concern to us with, with AHERF.  
 24 Q. I understand that. All I asked  
 25 was that, was whether it was the practice of

Page 312

1 KARLEEN CARLSON STRAYER  
 2 frequently found was not -- that would not  
 3 have set off alarm bells in my head.  
 4 I would have wished for a tighter  
 5 test because clearly the purpose of this  
 6 document and the reason Dick is summarizing  
 7 this is that in a remediation, MBIA is looking  
 8 for some way to control what's happening with  
 9 the credit, and so, he is trying to find a  
 10 covenant default of some sort to give us a  
 11 little bit of control; and clearly, from this,  
 12 he hasn't found it.  
 13 Q. So given that you've testified  
 14 that a covenant default gives us, meaning  
 15 MBIA, a little bit of control, I take it MBIA  
 16 has no control over the remediation process in  
 17 the absence of a covenant default?  
 18 A. We have no legal remedies, if  
 19 that's what you mean by "control." We do not  
 20 have legal remedies until the covenant is  
 21 breached.  
 22 Q. Is it your understanding that  
 23 Mr. Heberton derived these absolute amounts,  
 24 by that I mean 42 million and 76 million, from  
 25 a review of the FY '96 DVOG audited financial

Page 314

1 KARLEEN CARLSON STRAYER  
 2 analysts in the Healthcare Group in the  
 3 Surveillance Department to refer back to the  
 4 most recent audited annual financial  
 5 statements in performing the legal documents  
 6 overview, such as this, to the extent they  
 7 needed to refer to some financial information.  
 8 A. Yes, to the extent they were  
 9 trying to calculate a covenant, yes,  
 10 absolutely.  
 11 Q. MBIA clearly knew in the months  
 12 leading up to the DVOG bond offering that the  
 13 entities that were going to comprise the DVOG  
 14 were making support payments to AIHG, the  
 15 physician practice acquisition organization,  
 16 correct?  
 17 A. Yes.  
 18 Q. And that was clearly reflected in  
 19 the official statement, Exhibit 408, which we  
 20 looked at yesterday?  
 21 A. Yes.  
 22 Q. In light of that knowledge,  
 23 shouldn't the healthcare analyst on the new  
 24 business side have paid particular attention  
 25 to the stringency of the asset transfer test?

11 (Pages 311 to 314)



Page 315

KARLEEN CARLSON STRAYER

A. I cannot speak to what the negotiations were and what they were thinking at that time. I, I -- you know, I would assume that that was something the analyst reviewed.

Q. And that would have been your expectation as someone who was responsible for monitoring the credits after the decision had been made to provide MBIA bond insurance?

A. It would have been my expectation that the analyst who underwrote the credit would have a -- would have done a fair amount of due diligence, would have understood the dynamics of the credit and would have negotiated documents that reflected their view of the financial health of the credit.

Q. Mr. Heberton notes that the test in the MTI results in a ceiling on transfers of 76 million per year; is that correct?

MR. WITTEN: Objection.

A. He's calculated it for that particular year; that number would change based on what year you're calculating it, but, yes.

Page 317

KARLEEN CARLSON STRAYER

is listed as 73,676,000, correct?

A. Yes.

Q. So using round numbers, that's about 2 million shy of the ceiling that year under the eight percent of all assets test?

A. Yes.

Q. So is it your view that someone at AHERF figured out roughly how much money could be transferred out of DVOG without triggering this covenant and AHERF subsequently took advantage of that?

MS. HACKETT: Objection, lack of foundation.

A. I, I wouldn't know. I have, I have no idea what they were thinking at the time; if they were focusing on, on this specific test, it is possible, but I'd have no way of knowing that.

Q. Once of DVOG bonds had been issued in June of 1996, did MBIA have any way of going back and changing this test unilaterally?

A. No.

Q. Is there any way after the DVOG

Page 316

KARLEEN CARLSON STRAYER

Q. Absolutely correct.

So to be specific, this is his calculation of the ceiling in fiscal year 1996?

A. Yes.

Q. And is it your recollection that in fiscal year 1996 the DVOG transferred to affiliates \$73 million?

A. Roughly. I think we looked at that number yesterday, it was -- that sounds about right.

Just wanted to look.

Q. That's all right. If you wanted to take a look at the FY '96 audited financial statements for DVOG, it's Exhibit 1894.

A. Okay.

Q. And specifically, I would refer you to MBIA 015821.

A. Yes, I see.

Q. And this, again, is the income statement for the DVOG for fiscal year 1996, correct?

A. Yes.

Q. And "transfers to affiliates, net"

Page 318

KARLEEN CARLSON STRAYER

bond offering that MBIA could have changed this test?

A. Yes.

Q. What are those ways?

A. If we had had a covenant breach and if AHERF had come to us to waive the covenant breach, we could have negotiated with them a change to the documents of many different forms, including changing this test.

Q. Absent a covenant breach, could MBIA have approached AHERF's senior management and attempted to renegotiate this asset transfer test?

A. We could have tried; I doubt we would have been successful.

Q. Let me break that down into two parts. You say we could have tried, so I take it MBIA did not try?

A. No, I'm -- I don't believe we did.

Q. And then you testified that you doubt you would have been successful?

A. Yes.

Q. Why do you doubt that you would have been successful, had you tried to